



温嶺浙江工量刃具交易中心股份有限公司
Wenling Zhejiang Measuring and Cutting Tools
Trading Centre Company Limited*

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock code : 1379

2020
Annual Report

A 3D architectural rendering of the Zhejiang Measuring and Cutting Tools Trading Center building. The building is a modern, multi-story structure with a glass facade and a prominent entrance. The text "中国·浙江工量刃具交易中心" is visible on the building's facade. The rendering is set against a background of a blue sky with white clouds and a road with cars and a van.

中国·浙江工量刃具交易中心

* for identification purposes only

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. PAN Haihong (*Chief executive officer*)
Mr. ZHOU Guilin

Non-executive Directors

Mr. HUANG Qun (*Chairman of the Board*)
Mr. WANG Wenming
Mr. CHENG Jinyun
Mr. YE Yunzhi

Independent Non-executive Directors

Mr. XU Wei
Mr. JIN Hongqing
Mr. TSOI Ka Shing

AUDIT COMMITTEE

Mr. TSOI Ka Shing (*Chairman*)
Mr. HUANG Qun
Mr. XU Wei

REMUNERATION COMMITTEE

Mr. JIN Hongqing (*Chairman*)
Mr. PAN Haihong
Mr. TSOI Ka Shing

NOMINATION COMMITTEE

Mr. HUANG Qun (*Chairman*)
Mr. XU Wei
Mr. JIN Hongqing

JOINT COMPANY SECRETARIES

Mr. XU Yi
Ms. CHAN Tsz Yu *ACG, ACS*

AUTHORISED REPRESENTATIVES

Mr. PAN Haihong
Mr. XU Yi

LEGAL REPRESENTATIVE

Mr. PAN Haihong

SUPERVISORY COMMITTEE

Ms. XIE Yanli
Ms. YANG Mengjie
Mr. XIE Huihui

LEGAL ADVISERS

As to the PRC Laws
L&H Law Firm

AUDITOR

KPMG, Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8th Floor, Prince's Building,
10 Chater Road,
Central,
Hong Kong

COMPLIANCE ADVISER

Cinda International Capital Limited

PRINCIPAL BANKERS

China Construction Bank Corporation
Wenling Wenqiao Sub-branch
Industrial Bank Co., Ltd.
Taizhou Wenling Sub-branch

CORPORATE INFORMATION

REGISTERED OFFICE AND HEADQUARTERS IN THE PRC

Qianyangxia Village
Wenqiao Town
Wenling City
Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40/F, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai
Hong Kong

H SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

1379

WEBSITE

<http://cnglj.com>

FOUR-YEAR FINANCIAL SUMMARY

	Year ended 31 December			
	2020	2019 (Note 1)	2018 (Note 1)	2017 (Note 1)
Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income				
Revenue (RMB'000)	46,743	50,150	46,994	43,487
Gross profit (RMB'000)	37,625	40,887	38,809	36,760
Gross profit margin	80.5%	81.5%	82.6%	84.5%
Profit for the year (RMB'000)	28,081	32,447	36,961	44,892
Net profit margin	60.1%	64.7%	78.7%	103.2%
Basic and diluted earnings per share (RMB)	0.47	0.54	0.62	0.75

	As at 31 December			
	2020	2019 (Note 1)	2018 (Note 1)	2017 (Note 1)
Major Items of Consolidated Statement of Financial Position				
Non-current assets (RMB'000)	1,039,150	956,685	866,690	836,924
Current assets (RMB'000)	95,357	59,264	44,659	48,536
Current liabilities (RMB'000)	130,026	126,704	54,222	66,179
Net current liabilities (RMB'000)	34,669	67,440	9,563	17,643
Non-current liabilities (RMB'000)	289,778	251,681	252,010	251,125
Net assets (RMB'000)	714,703	637,564	605,117	568,156
Gearing ratio (Note 2)	11.3%	8.9%	N/A	N/A

Notes

- (1) The results and summary of assets and liabilities for the years ended 31 December 2017, 2018 and 2019 which were extracted from the prospectus of the Company dated 11 December 2020 (the "Prospectus").
- (2) Gearing ratio equals total debt divided by total equity as at the end of the year. Total debt includes all interest-bearing bank loans.

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of 温岭浙江工量刃具交易中心股份有限公司 Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited* (the "**Company**", together with its subsidiaries, collectively the "**Group**"), I would like to present to the shareholders of the Company (the "**Shareholders**") the annual results and consolidated financial statements of the Group for the year ended 31 December 2020.

The H shares of the Company (the "**H Shares**") were successfully listed (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 30 December 2020 (the "**Listing Date**"). The net proceeds received by the Company were approximately RMB52.1 million (approximately HK\$61.9 million), after deducting the underwriting fees and commissions and other related listing expenses borne by the Group. The Listing is not only a grand event of the Group, it is also a historic moment for the development of measuring and cutting tools trading centre in Wenling City, Zhejiang Province.

After 17 years of development, the Group has gone from the unknown comprehensive market of industrial products to the "key market of Zhejiang Province" and the "top 100 market of China". The total sales revenue of trading measuring and cutting tools by the tenants in our centre increased from around a few million at initial to over RMB5.0 billion nowadays. The Directors believe that the Listing facilitates the implementation of business strategies for continued growth and further business expansion, which will increase and diversify revenue of the Group.

The Group recorded property leasing income and other income of approximately RMB43.8 million and RMB2.9 million respectively for the year ended 31 December 2020. The gross profit was approximately RMB37.6 million. Profit for the year attributable to shareholders of the Company was approximately RMB28.1 million. During the hard time of the COVID-19 epidemic (the "**Epidemic**"), the Group provided a one-off 35-day rental refund of approximately RMB4.5 million to our tenants in order to take up social responsibilities as well as respond to government's recommendation to help enterprises resume businesses and production due to the Epidemic. In the meantime, the Group successfully renewed the expired lease contract in September 2020, and the average rent rate increased, especially for the second floor of our centre, the average rent rate of the second floor increased by over 60%. The results was out of our expectation and represented that the tenants have confidence in our centre and the Chinese economy.

OUTLOOK

The Listing marked a meaningful and significant milestone of the Group. As stated in the Prospectus, the Group will continue to strengthen our market position in the Measuring and Cutting Tools market, develop the third floor of our centre, transform into the internet-enabled trading centre, strengthen our recognition and develop the Measuring and Cutting Tools Industrial Park.

In order to bring returns to our Shareholders, the Company is also proactively considering to expand its business activities and look for co-operation with other research and development institution to provide add-valued service to our tenants.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere appreciation to our tenants, other business partners and Shareholders for their continuous support. I would like to also thank the management team and all staff members for their contribution during the year.

HUANG Qun

Chairman

Wenling City, the PRC
24 March 2020

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. PAN Haihong (潘海鴻), aged 44, is our executive Director, the chief executive officer and general manager of our Company. He was appointed as a Director in August 2015 before being re-designated as an executive Director on 21 November 2018. He is also the director, manager and legal representative of Wenling Xuri Investment Company Limited* (the “**Wenling Xuri**”). He is primarily responsible for overseeing strategic development, business planning and the day-to-day operations of our Group. He is also a member of the remuneration committee of our Company.

Mr. Pan has over 21 years of management related experience and has deep understanding of business development, corporate governance and administration. Prior to joining our Group, Mr. Pan served as a legal representative and venue supervisor in Wenling City Daxi Centre Caichang Company Limited* (溫嶺市大溪中心菜場有限公司) from June 1997 to August 2015, where he was responsible for overall management, daily operation and supervision of the company. Mr. Pan worked as an assistant officer in Wenling City Market Development Service Centre* (溫嶺市市場開發服務中心) (the “**Market Development Service Centre**”) from August 2015 to February 2018, where he was responsible for assisting the director in the supervision, operational management and personnel and general management of the centre. Mr. Pan has been a member of party committee in Wenling City Market Group Company Limited* (溫嶺市市場集團有限公司) (the “**Market Group**”) since February 2018, where he is responsible for making significant decisions and providing judgment to the committee. Mr. Pan completed a course in economic law organised by Hubei Province Economic Management Cadre Institute* (湖北省經濟管理幹部學院) in the PRC in June 2004.

Mr. ZHOU Guilin (周桂林), aged 62, is our executive Director, our chief operating officer, and the supervisor of Wenling Xuri. He is primarily responsible for overseeing financial management and day-to-day operations of our Group.

Mr. Zhou has over nine years of experience in trading centre operation industry and is highly knowledgeable in the areas of business operation and financial management. Mr. Zhou joined our Group as our deputy general manager in October 2009 and a Director in May 2018, and was re-designated as an executive Director on 21 November 2018, where he was responsible for overseeing the internal control and daily operation of our Group and monitoring the financial activities of our Group. Prior to joining our Group, Mr. Zhou was employed as a leader in urban construction management department of the government of Wenqiao Town in Wenling City from August 1993 to September 2009, where he was responsible for supervising the operation and managing the projects.

Non-Executive Directors

Mr. HUANG Qun (黃群), aged 58, is the chairman of our Board and a non-executive Director. He was appointed as a Director in May 2018 before being re-designated as a non-executive Director on 21 November 2018. He is primarily responsible for overseeing the growth strategy and overall management of our Group. He is also the chairman of the nomination committee and a member of the audit committee of our Company.

Mr. Huang has about 17 years of management related experience and has extensive knowledge in the areas of strategic planning, business development and administration. Prior to joining our Group, Mr. Huang was appointed as an officer in Market Development Service Centre from November 2001 to February 2018, where he was responsible for the overall management, business development and strategic planning of the centre. Mr. Huang has served as deputy general manager in Market Group since February 2018, where he is responsible for assisting the general manager in the overall development and operational planning of the company. Mr. Huang graduated in Administrative Management from Yangtze University (長江大學) in the PRC in June 2005.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. WANG Wenming (王文明), aged 53, has been appointed as a Director since 3 May 2018. Mr. Wang was re-designated as a non-executive Director on 21 November 2018 and is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Group.

Mr. Wang has over 12 years of experience in management and administration. Prior to joining our Group, Mr. Wang has worked for Wenling City Wenqiao Town Maoyang Village Villagers Committee* (溫嶺市溫嶠鎮茅洋村村民委員會) (the “**Maoyang Village Committee**”) since November 2006, first as a deputy officer and subsequently as a secretariat, where he is responsible for the overall management and administration of and providing strategic advice to Maoyang Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC* (中國浙江省溫嶺市溫嶠鎮茅洋村). Mr. Wang served as a deputy of the Standing Committee of the Fifth National People’s Congress of Taizhou City in 2017 and has been a member of the 14th Committee in Wenling City of the Chinese People’s Political Consultative Conference since February 2017. Mr. Wang graduated from Wenling City College of Vocation and Technology* (溫嶺市職業技術學院) in the PRC in January 2011.

Mr. CHENG Jinyun (程錦雲), aged 63, has been appointed as a Director since 3 May 2018. Mr. Cheng was re-designated as a non-executive Director on 21 November 2018 and is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Group.

Mr. Cheng has approximately 15 years of experience in management and administration. Prior to joining our Group, Mr. Cheng has worked for Wenling City Wenqiao Town Shangjie Village Villagers Committee* (溫嶺市溫嶠鎮上街村村民委員會) (the “**Shangjie Village Committee**”) since January 2003 first as a member and subsequently the village head, and currently the secretariat, where he was responsible for the overall management and administration of the village and making significant decisions on the development of the village.

Mr. YE Yunzhi (葉雲志), aged 55, has been appointed as a Director since 3 May 2018. Mr. Ye was re-designated as a non-executive Director on 21 November 2018 and is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Group.

Mr. Ye has over 13 years of experience in management and administration. Prior to joining our Group, Mr. Ye has worked for Wenling City Wenqiao Town Zhongjie Village Villagers Committee* (溫嶺市溫嶠鎮中街村村民委員會) (the “**Zhongjie Village Committee**”) since April 2005, first as a party branch member of Zhongjie Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC* (中國浙江省溫嶺市溫嶠鎮中街村) and a committee member and subsequently as an officer, where he is responsible for overall management and administration of the village and providing strategic advice to the village. Mr. Ye received the award of Excellent Communist Party Member in Wenling City* (溫嶺市創先爭優優秀共產黨員) from the Wenling City Committee in June 2012. Mr. Ye completed a course in agricultural economic management organised by Taizhou Administration Institute* (台州行政學院) in the PRC in July 2008.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Mr. XU Wei (許偉), aged 50, has been appointed as our independent non-executive Director since 9 November 2018 and is primarily responsible for supervising and providing independent judgment to our Board. He is also a member of each of the audit and nomination committees of our Company.

Mr. Xu is a registered lawyer in the PRC and has over 25 years of experience in the legal industry. Mr. Xu was employed by Wenling City Songmen Legal Service Office* (溫嶺市松門法律服務所) as a legal officer from April 1993 to April 1999 and by Wenling City Ruoheng Legal Service Office* (溫嶺市箬橫法律服務所) as a chief officer from May 1999 to December 2012, where he was both primarily responsible for providing legal services. Subsequently, Mr. Xu worked for Zhejiang Mingquan Law Firm* (浙江明權律師事務所) as a trainee solicitor from January 2013 to March 2014, where he was primarily responsible for assisting the firm's lawyers in legal related matters. Mr. Xu then worked for Zhejiang Qianheng Law Firm* (浙江乾衡律師事務所) as a lawyer from April 2014 to April 2015, where he was primarily responsible for providing legal services. Mr. Xu has worked for Zhejiang Qianheng (Wenling) Law Firm* (浙江乾衡(溫嶺)律師事務所) as a lawyer since May 2015, where he is primarily responsible for assisting in the management of the firm and providing legal services. Mr. Xu passed the National Judicial Examination* (國家司法考試) in the PRC and obtained his legal professional qualification in March 2012. Mr. Xu completed a course in legal studies through distance learning organised by the China University of Geosciences (中國地質大學) in the PRC in June 2004.

Mr. JIN Hongqing (金洪青), aged 67, has been appointed as our independent non-executive Director since 1 August 2018 and is primarily responsible for supervising and providing independent judgment to our Board. He is also the chairman of the remuneration committee and a member of the nomination committee of our Company.

Mr. Jin has over 31 years of experience in corporate governance, administration and management. Mr. Jin worked for Wenqiao Town People's Government, first as a deputy mayor of industry from June 1987 to September 1990 and from March 1993 to June 1995 and subsequently as a deputy officer from June 1995 to October 2012, where he was responsible for corporate governance, land management and administration of Wenqiao Town. Mr. Jin worked as a secretariat in Magong Xiang Party Committee* (馬公鄉黨委) from September 1990 to February 1993. Mr. Jin has been a secretary-general in Chamber of Commerce of Wenling Shoes and Leather Industry* (溫嶺市鞋革業商會) since November 2012, where he was responsible for assisting the president and vice president in daily operations and administration of the Chamber of Commerce. Mr. Jin received the award Advanced Worker* (先進工作者) in 1984, 1985, 1986 and 1989 and the award Advanced Individual* (先進個人) in 2007 and 2010 from the authorities, respectively, in recognition of his contribution to the advancement of Wenling City.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. TSOI Ka Shing (蔡嘉誠), aged 39, has been appointed as our independent non-executive Director since 1 August 2018 and is primarily responsible for supervising and providing independent judgment to our Board. He is also the chairman of the audit committee and a member of the remuneration committee of our Company.

Mr. Tsoi has approximately 13 years of experience in accounting and financing. Mr. Tsoi worked as an audit intermediate in Yau and Wong, CPA from July 2005 to February 2007, an auditor in CCIF CPA Limited from February 2007 to January 2008, a senior auditor in Deloitte Touche Tohmatsu from January 2008 to August 2009, and first as a senior accountant and subsequently an assistant manager in Shinewing (HK) CPA Limited from August 2009 to November 2010. Mr. Tsoi also worked in Teamway International Group Holdings Limited (formerly known as Jin Bao Bao Holdings Limited), a listed company on the Stock Exchange (stock code: 1239), as the company secretary from June 2011 to September 2014 and financial controller from June 2011 to June 2014. Mr. Tsoi worked in China Harvest Finance Group Limited as the chief financial officer and company secretary from September 2014 to December 2015. Mr. Tsoi has worked as the chief financial officer and company secretary in Bao Shen Holdings Limited, a listed company on the Stock Exchange (stock code: 8151), since March 2018. Mr. Tsoi has also been appointed as the company secretary of Edensoft Holdings Limited, a listed company on the Stock Exchange (stock code: 1147), since 14 April 2020.

Mr. Tsoi graduated from the University of Technology, Sydney in Australia with a bachelor degree of business, majoring in accounting and finance in July 2005. He was accredited as a certified practicing accountant by CPA Australia and certified public accountant by Hong Kong Institute of Certified Public Accountants in November 2009 and May 2011, respectively.

SUPERVISORS OF THE COMPANY (THE “SUPERVISORS”)

Ms. XIE Yanli (謝豔麗), aged 43, has been appointed as our chairlady of our Supervisory Committee and a Supervisor since 3 May 2018. She is primarily responsible for supervising the performance of duties by our Directors and members of the senior management of our Group.

Ms. Xie worked as a deputy officer in Market Development Service Centre from November 2001 to February 2018, where she was responsible for corporate management, daily operations, establishing party and discipline inspection of the centre. Ms. Xie has also served as a deputy general manager in Market Group since February 2018, where she is responsible for assisting the general manager in formulating the development strategy, internal management and daily operations of the company. Ms. Xie has been a vice president in Wenling City Market Association* (溫嶺市市場協會) since June 2017. Ms. Xie completed a course in accounting from Hubei Agricultural College* (湖北農學院) in the PRC in June 2002.

Ms. YANG Mengjie (楊夢潔), aged 28, has been appointed as a Supervisor since 9 November 2018 and is primarily responsible for supervising the performance of duties by our Directors and members of the senior management of our Group.

Ms. Yang joined Wenling City Shopping Centre Service Co., Ltd.* (溫嶺市購物中心服務有限公司) as a clerk in February 2017 responsible for collecting and filing office documents and providing secretarial support, and was assigned to its shareholders, Market Group, as assistant to chief financial officer on 2 January 2019 responsible for consolidation and analysis of financial data of Market Group and its members. Ms. Yang was awarded a certificate of accounting profession issued by the Wenling City Finance Bureau* (溫嶺市財政局) in July 2015. Ms. Yang graduated in art and design (environmental art and design) from Wenzhou University* (溫州大學) in the PRC in June 2014.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. XIE Huihui (謝輝輝), aged 32, has been appointed as an employee representative Supervisor since 3 May 2018 and is primarily responsible for supervising the performance of duties by our Directors and members of the senior management of our Group.

Mr. Xie has about nine years of experience in the trading centre operation industry and has ample knowledge of business and risk management. Mr. Xie was the head of the shops management department of our Company from October 2009 to April 2018, where he was responsible for managing the properties of our Company, handling enquiries from regulatory authorities and overseeing the operations of our Company. Mr. Xie completed a course in software college computer information management from Ningbo Dahongying University (寧波大紅鷹學院) in the PRC in July 2008.

SENIOR MANAGEMENT

Mr. PAN Haihong (潘海鴻), aged 44, is a chief executive officer and general manager of our Company. For the biographical details of Mr. Pan, please refer to the paragraph headed “Executive Directors” in this section.

Mr. ZHOU Guilin (周桂林), aged 61, is a chief operating officer and deputy general manager of our Company. For the biographical details of Mr. Zhou, please refer to the paragraph headed “Executive Directors” in this section.

Mr. CHEN Junren (陳俊仁), aged 44, has been a deputy general manager of our Company since October 2009 and the director, manager and legal representative of Wenling Measuring and Cutting Tools Network. He is primarily responsible for supervising the daily operations, property leasing management and business development of our Group.

Mr. Chen joined our Group in 2003 and was a Director from April 2003 to August 2015, where he was responsible for overseeing the overall management, market development and the growth strategy of our Company. Mr. Chen has over 15 years of experience in the trading centre operation industry and has extensive knowledge in the areas of management and business development.

Mr. XIA Xianfa (夏仙法), aged 52, has been appointed as a deputy general manager of our Company since October 2009 and is primarily responsible for managing the properties, safety, human resources and operations of our Group.

Mr. Xia has about nine years of experience in the trading centre operation industry and has extensive knowledge in the areas of property and risk management. Mr. Xia served as village head in Qianyangxia Village from February 2005 to February 2014, where he was responsible for overall management and administration of the village. Mr. Xia received the awards of Advanced Individual in Village Work of 2005* (2005年度村級工作先進個人) and Advanced Individual in Population and Birth Planning Work of 2009* (2009年度人口與計劃生育工作先進個人) from the Chinese Communist Wenqiao Town Committee* (中共溫嶠鎮委員會) of Wenqiao Town People’s Government in April 2006 and March 2010, respectively. Mr. Xia completed a course in agricultural economic management organised by Taizhou Administration Institute* (台州行政學院) in the PRC in July 2011.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. XU Yi (徐亦), aged 26, has been appointed as a personnel of information disclosure of our Company since April 2018 and the joint company secretary of our Company since August 2018, and is primarily responsible for overseeing corporate governance, compliance, risk management and company secretarial matters of our Group.

Mr. Xu also worked as a person-in-charge in office of our Company from September 2016 to April 2018, where he was responsible for overseeing the daily operations, compliance and secretarial matters of our Company. Mr. Xu graduated from the University of Wales, the United Kingdom with a bachelor degree of arts, majoring in art and design (3D computer animation) in August 2016.

JOINT COMPANY SECRETARIES

Mr. Xu Yi and Ms. Chan Tsz Yu are our joint company secretaries.

Mr. XU Yi (徐亦) is one of our joint company secretaries of our Company. For the biographical details of Mr. Xu, please refer to the paragraph headed "Senior Management" in this section.

Ms. CHAN Tsz Yu (陳芷瑜) has been appointed as the joint company secretary of the Company since February 2021. She is an assistant manager of SWCS Corporate Services Group (Hong Kong) Limited. Ms. Chan has over five years of experience in the corporate services field in sizable listed companies and professional corporate services firms. Ms. Chan is an associate member of both the Hong Kong Institute of Chartered Secretaries and the Chartered Governance Institute. In addition, she holds a bachelor's degree in economics in The Chinese University of Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Measuring and cutting tools refer to those tools or products which are used in the machine manufacturing process for measuring and cutting or as auxiliaries for measuring and cutting. They mainly include measuring tools, cutting tools, and other tools. For the purpose of improving production efficiency and reducing the probability of systematic error, high-quality measuring and cutting functioning are important for manufacturing process.

According to Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. (“**F&S**”), China has introduced a number of policies facilitating the manufacturing industry in recent years. Machine tools industry is the foundation of industrial manufacturing. As the key components for machine tools, the measuring and cutting tools manufacturing industry has been benefited from the prosperity of the manufacturing industry which in turn has driven the development of measuring and cutting tools trading centre as the same provides a centralised place for the trading of measuring and cutting tools. In particular, according to The Thirteenth Five Year Plan of Intelligent manufacturing (2016–2020)* (《智能製造“十三五”發展規劃(2016–2020年)》), intelligent manufacturing will become a long-term plan and strategy. Traditional manufacturing will need to gradually transform into digital manufacturing. This policy which aims to expedite the process of intelligent manufacturing will, according to F&S, accelerate the upgrade or replacement of outdated manufacturing machine, in turn creating additional demand for the measuring and cutting tools of higher product quality. For example, traditional manufacturing market, such as aerospace which demands intelligent transformation, is expected to have increased demand of measuring and cutting tools products to develop high precision (Computerised Numerical Control) CNC machine tools industry and product replacement. In addition, emerging manufacturing market, such as industrial robots using new generation of information technology and intelligent manufacturing, will create additional demand of the machine tools and thus inspire the demand of the measuring and cutting tools. As a result of the increased demand of machine tools abovementioned, it is expected that the demands of the measuring and cutting tools will be boosted and the manufacturers in the measuring and cutting tools industry will be stimulated to offer larger production volumes and higher product quality of measuring and cutting tools.

As the leader of the measuring and cutting tools trading centre operator market in the PRC, the Group believe that we are well-positioned to benefit from intelligent manufacturing transformation stimulating our tenants to offer larger production volumes and improving product quality of their measuring and cutting tools in our Trading Centre (as defined below).

BUSINESS REVIEW

The Group is an established measuring and cutting tools trading centre operator in China. The Company was founded in 2003 and owns, operates and manages the four-storey trading centre located in Qianyangxia Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC* (中國浙江省溫嶺市溫嶠鎮前洋下村) (the “**Trading Centre**”), which is essentially for product displaying and trading purposes, such that it primarily targets to provide units for use as shops for the tenants to display, trade and promote their measuring and cutting tools products to their downstream customers. The principal activity and source of revenue of the Group were primarily derived from property leasing business through our operation of the Trading Centre for the measuring and cutting tools industry. The Group aims to expand such property leasing business in the measuring and cutting tools industry into the industrial park (the “**Industrial Park**”) on the land in Chenshan Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC* (中國浙江省溫嶺市溫嶠鎮琛山村) (the “**Land**”) with a saleable area of approximately 50,757 sq.m..

MANAGEMENT DISCUSSION AND ANALYSIS

Trading Centre

Our Trading Centre is a four-storey commercial complex with basement with a total gross floor area (“GFA”) of approximately 74,204.7 sq.m., of which a total GFA of approximately 71,817.5 sq.m. is held for leasing to our tenants for their trading and products displaying purpose and a total GFA of approximately 2,387.2 sq.m. is held for our own offices. The land use rights of the Trading Centre were granted for a term expiring on 15 November 2046, which is a long-term lease, for commercial uses. As at 31 December 2020, the value of the Trading Centre was RMB851.0 million (2019: RMB852.0 million), which interest is wholly owned by the Group.

We lease the units on the first and the second floors to corporations and individuals selling measuring and cutting tools. We designate part of the third floor as the electronic business park for leasing to the measuring and cutting tools e-commerce business operators. We use the fourth floor as our office, and the basement as the car park. We also provide property management service and support services, namely the Wenling•China Measuring and Cutting Tools index (溫嶺•中國工量刀具指數) and the measuring and cutting tools financing service, to our tenants. As at 31 December 2019 and 2020, our Trading Centre had 611 and 610 tenants, respectively.

For the year ended 31 December 2020, 482 lease agreements expired, representing approximately 71.3% of the leased area of our Trading Centre. In light of such expiration, we held a public tender between 18 to 21 August 2020 for the purpose of inviting interested corporations and individuals to submit bids for renting the units (with lease agreements expiring in 2020) on the first and second floors in our Trading Centre (the “2020 Public Tender”) (excluding the units in Zone G on the second floor). As a results of the 2020 Public Tender, 344 units on the first floor, representing 99.7% of the total number of units on the first floor available for bidding and 159 units on the second floor, representing all of the units on the second floor available for bidding, have been successfully leased out during the 2020 Public Tender. In addition, with respect to the 37 units available for renewal in Zone G on the second floor, all of them have been successfully renewed. As a result of the 2020 Public Tender and the renewal of the units in Zone G on the second floor, we have achieved high occupancy rates of approximately 99.8% and 100.0% for the first floor and the second floor, respectively.

The tenancy agreements with respect to the 503 units leased out from the 2020 Public Tender and 37 units renewed in Zone G on the second floor are under substantially the same terms as their original expiring tenancy agreements. Generally the rental rate was increased due to the Group is able to maintain stable and high occupancy rates of the Trading Centre and there is a strong demand on the units of our Trading Centre.

The following table sets forth the information regarding the average monthly effective rent per square meter for the leased area in the Trading Centre for the years.

	For the year ended 31 December	
	2020	2019
	Average monthly effective rent (in RMB per sq.m.)	Average monthly effective rent (in RMB per sq.m.)
First floor	341.1	414.0
Second floor	95.9	120.5
Third floor	20.7	28.4
Basement	14.3	14.3

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

- (1) Average monthly effective rent is calculated by total rental income dividend by the weighted average leased leaseable gross floor area (“LFA”) during the years indicated.
- (2) Excluding the 35-day rental refund to our tenants due to the Epidemic, the average monthly effective rent per sq.m. of the first floor, the second floor, the third floor and the basement for the year ended 31 December 2020 were approximately RMB430.0, RMB132.7, RMB28.4 and RMB14.3, respectively.

For the year ended 31 December 2020, the LFA of the Trading Centre and the percentage of LFA leased to our tenants are 25,931.3 sq.m. and 99.4%, respectively (2019: 24,699.0 sq. m. and 98.5%). LFA leased is calculated as the percentage of LFA retained and leased to our tenants comparing to the LFA for each of the years.

Industrial Park

According to the F&S Report, the measuring and cutting tools industry is in demand of an industrial park, primarily because (1) there is a strong governmental support to develop a measuring and cutting tools industrial park; and (2) the existing measuring and cutting tools industrial park in Wenling City, Zhejiang Province, the PRC is immaturely developed.

Considering the above and leveraging our experience, knowledge and network through years of being an active market player in the measuring and cutting tools industry, our Directors believe that the development of the Industrial Park is an excellent opportunity to expand our business and to capitalise our market position in the measuring and cutting tools industry.

In December 2018, we successfully won the bid for the Land at the bid price of RMB63.5 million for the construction of the Industrial Park. The land use rights of the Industrial Park were granted for a term expiring on 27 January 2069, which is a long-term lease, for industrial uses. We estimate that the floor area of the Industrial Park shall be approximately 111,000 sq.m. and total investment cost shall be approximately RMB405.9 million including acquisition of the Land, into the Industrial Park. The construction work have been commenced in February 2020 and expected to be completed by the end of 2021. As at 31 December 2020, the Group have incurred RMB170.6 million (2019: RMB84.5 million) for the acquisition of the Land and construction works, representing completion of 42.0% of construction works. The interests of the Industrial Park is wholly owned by the Group.

The Industrial Park is mainly for manufacturing purpose that it targets to provide units for use as factories and workshops, where upstream manufacturers would conduct manufacturing and production of measuring and cutting tools (as compared with our Trading Centre where tenants therein primarily use the units as shops to conduct product display, trading and promotion). It is expected that the size of the manufacturing units in the contemplated Industrial Park is comparatively large, ranging from approximately 500 sq.m. to 2,000 sq.m. or larger. In addition, we expect to facilitate financing service as well as professional support to the tenants’ manufacturing business.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS STRATEGY

We intend to maintain and further strengthen our position in the measuring and cutting tools industry and to expand our business by implementing the following business strategies:

- further strengthening our market position in the measuring and cutting tools market in the PRC;
- further development of the third floor of the Trading Centre (the “**Third Floor**”);
- transforming into an internet-enabled trading centre;
- further strengthening our recognition; and
- development of the measuring and cutting tools industrial park.

FINANCIAL REVIEW

Revenue

Total revenue decreased by approximately 6.8% from approximately RMB50.2 million for the year ended 31 December 2019 to approximately RMB46.7 million for the year ended 31 December 2020, mainly because the Group provided a one-off 35-day rental refund of approximately RMB4.5 million to our tenants in order to take up social responsibilities as well as respond to government’s recommendation to help enterprises resume businesses and production due to the Epidemic. After excluding such rental refund, our revenue was approximately RMB51.2 million which was relatively stable as compared with the same of approximately RMB50.2 million for the year ended 31 December 2019.

Cost of Sales

Cost of sales was approximately RMB9.3 million and RMB9.1 million for the years ended 31 December 2019 and 2020, respectively, which was relatively stable.

Gross Profit and Gross Profit Margin

Gross profit decreased by approximately 8.0% from approximately RMB40.9 million for the year ended 31 December 2019 to approximately RMB37.6 million for the year ended 31 December 2020, mainly because of the decrease of our revenue resulted from the one-off 35-day rental refund of approximately RMB4.5 million as mentioned above. As such, gross profit margin decreased from approximately 81.5% for the year ended 31 December 2019 to approximately 80.5% for the year ended 31 December 2020.

Valuation Gains on Investment Properties

The valuation gains on our investment properties decreased from approximately RMB10.8 million for the year ended 31 December 2019 to approximately RMB3.2 million for the year ended 31 December 2020 mainly because of the decrease of fair value of the Trading Centre as at 31 December 2020 primarily due to the shortening of the land use rights term during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Net Income

Other net income increased by approximately RMB4.3 million from approximately RMB0.6 million for the year ended 31 December 2019 to approximately RMB4.9 million for the year ended 31 December 2020, primarily due to government subsidies of approximately RMB4.4 million in relation to compensation of the rental refund provided by the Group to the tenants for the year ended 31 December 2020 due to the Epidemic while no such income was incurred for the year ended 31 December 2019.

Administrative Expenses

Administrative expenses increased by approximately 12.9% from approximately RMB7.2 million for the year ended 31 December 2019 to approximately RMB8.2 million for the year ended 31 December 2020, primarily due to an increase in professional fees as we become a public company.

Income Tax Expenses

Income tax expenses decreased by approximately 13.5% from approximately RMB10.8 million for the year ended 31 December 2019 to approximately RMB9.4 million for the year ended 31 December 2020, primarily due to a decrease in deferred taxation arising from increase in valuation gains on our investment properties. The effective tax rate remained stable at 25.0% and 25.0% for the years ended 31 December 2019 and 2020, respectively.

Profit for the Year and Net Profit Margin

Profit for the year decreased by approximately 13.5% from approximately RMB32.4 million for the year ended 31 December 2019 to approximately RMB28.1 million for the year ended 31 December 2020, mainly due to the decrease in valuation gains on investment properties. As a result, our net profit margin decreased from approximately 64.7% for the year ended 31 December 2019 to approximately 60.1% for the year ended 31 December 2020.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's operations are primarily financed by cash generated from operating activities, the proceeds of capital contributions from our shareholders, the net proceeds received from the global offering of the Company completed on 30 December 2020 (the "**Global Offering**") and the bank borrowings. As of 31 December 2020 and 2019, the Group had cash and cash equivalents of RMB85.4 million and RMB35.4 million, respectively.

Funding and Treasury Policy

The Group monitors its cash flows and cash balance on a regular basis and seek to maintain optimal level of liquidity that can meet the working capital needs while supporting a healthy level of business and its various growth strategies. In the future, the Group will continue relying on cash flows from operation and other debt and equity financing to fund our working capital needs and finance part of our business expansion.

Foreign Currency Exchange Risk

The transactions of the Group are denominated in RMB and most of the assets and all liabilities are denominated in RMB. The foreign exchange risk that the Group has to bear is low. During the year, the Group did not use any financial instrument for hedging the foreign currency risk.

MANAGEMENT DISCUSSION AND ANALYSIS

Bank Loans and Charge on Assets

As at 31 December 2020, the Group's total bank loans amounted to approximately RMB80.5 million (2019: RMB57.0 million) which were pledged by the certain investment properties with a carrying amount of approximately RMB1,027.3 million (2019: RMB852.0 million).

All bank loans as at 31 December 2020 were denominated in RMB at fixed interest rate from 4.3% to 5.5% per annum (2019: 5.4% per annum). The following table sets forth the amount of indebtedness of the Group as at the date indicated:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Repayment Schedule		
Bank loans		
Within 1 year	40,462	57,020
After 1 year but within 2 years	40,000	–
Total borrowings	80,462	57,020

Gearing Ratio

The gearing ratio increased from 8.9% as at 31 December 2019 to 11.3% as at 31 December 2020, such increase was a result of an increase in bank loans of approximately RMB23.5 million.

Gearing ratio equals total debt divided by total equity as at the end of the year. Total debt includes all interest-bearing bank loans.

Capital Expenditure

For the year ended 31 December 2020, the capital expenditure was approximately RMB76.4 million (2019: approximately RMB66.1 million). The capital expenditure incurred for the year ended 31 December 2020 primarily related to construction of our investment property.

Capital Commitments

As at 31 December 2020, the capital commitments of the Group in respect of property, plant and equipment and land use rights contracted amounted for approximately RMB225.6 million (2019: approximately RMB314.8 million).

Contingent Liabilities

As at 31 December 2020, the Group did not have any material contingent liabilities or guarantees (2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS HELD, AND MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held or material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2020.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this annual report, as at 31 December 2020, the Group did not have any immediate plans for material investments and capital assets.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2020, the Group had total of 28 employees (2019: 27 employees). For the year ended 31 December 2020, the Group has incurred a total staff costs of approximately RMB2.1 million (2019: RMB2.2 million), representing a decrease of approximately 5.8% as compared with those for the year ended 31 December 2019 mainly resulted from the exemption of payment of certain social insurance granted by the government due to the Epidemic.

The Group believe that its employees are one of the most valuable assets and have greatly contributed to its success. The Group provide training to its employees to enhance their business efficiency and conduct yearly reviews of their performance. The Group believes that these initiatives have contributed to stronger work incentive among the employees. In addition, the salaries of our employees are mainly determined with reference to their seniority and performance, and the total compensation includes salaries, performance-based bonuses and special awards.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Main Board of the Stock Exchange on 30 December 2020. The net proceeds from the Company's issue in a total of 20,000,000 new H Shares in the Global Offering amounted to approximately HK\$61.9 million (after deducting underwriting commissions and related Listing expenses which equivalent to approximately RMB52.1 million) with the final offer price of HK\$6.25 per H Share. For the period from the Listing Date to 31 December 2020, the Company has not utilised any net proceeds from the Global Offering. The Company intends to use the net proceeds in the same manner and proportion as set out in the section headed "Future Plans and Use of Proceeds" contained in the prospectus of the Company dated 11 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period from Listing Date and up to 31 December 2020, the Group has applied the net proceeds as follows:

Usage	%	Budgeted amount as set out in the Prospectus RMB'000	Actual usage up to 31 December 2020 RMB'000	Remaining balance as at 31 December 2020 RMB'000	Expected timeline of full utilisation of the balance
- Finance partly the costs and expenses for the establishment and construction of the Industrial Park	70.0	36,441	-	36,441	December 2021
- Finance further development of the Third Floor, including refurbishment and renovation of the Third Floor	20.0	10,412	-	10,412	July 2022
- General working capital and other general corporate purposes	10.0	5,205	-	5,205	December 2021
	100.0	52,058	-	52,058	

As of the date of this report, the Company does not anticipate any change to its plan on the use of proceeds.

DIRECTORS' REPORT

The Directors hereby presents this directors' report of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company was incorporated in The People's Republic of China (the "PRC") as a joint stock company with limited liability on 14 May 2003. The principal activity of the Group is property leasing.

BUSINESS REVIEW

Further discussion and analysis of these activities for the year ended 31 December 2020 and a discussion on the Group's future development are set out in the section head "Management Discussion and Analysis" on pages 13 to 20 of this annual report.

KEY RISKS AND UNCERTAINTIES

The main activities of the Group is property leasing. It is exposed to a variety of main risks including (i) risks relating to the property leasing business; (ii) risks relating to the industry; and (iii) risks relating to conducting business in the PRC. Details of the above main risks as below:

Risks Relating to the Property Leasing Business

The profitability of the Group has declined due to decrease in valuation gains of the investment properties, and the prospects are dependent on various factors, including but not limited to the appraisal value of the properties, limited revenue growth, increase in cash outflow in respect of interests for the loan, the ability to execute our expansion plan successfully in light of the uncertainties involved in the establishment of the Industrial Park and our ability to cope with the fierce market competition from different market players.

Risks Relating to the Industry

The cyclical nature of the real estate, the manufacturing and the Measuring and Cutting Tools industries and the macro-economic situation in the PRC and worldwide could adversely affect the results of operations of the Group.

The Group is a Measuring and Cutting Tools trading centre operator and the principal activity and source of revenue are primarily derived from property leasing business through the operation of the Trading Centre. A significant portion of the net profits were also attributable to the valuation gains on the investment property. As such, the results of operations are and will continue to be affected by the cyclical nature of the real estate industry in the PRC. The value of our investment properties, i.e. the Trading Centre, has been appreciated, also maintained a steady rental rate for our Trading Centre.

DIRECTORS' REPORT

Risks Relating to Conducting Business in the PRC

The business operations may be materially and adversely affected by any change in the political, economic and social policies and conditions of Zhejiang Province, the PRC.

The business and results of operations of the Group are subject to the political, economic and social policies and conditions of Zhejiang Province, the PRC, as all of the revenue is derived from the operations in Zhejiang Province, the PRC and the major assets are located in Zhejiang Province, the PRC. The ability to conduct and expand the business operations in Zhejiang Province, the PRC depends on a number of factors that are beyond the control, including macro-economic and other market conditions and credit availability from lending institutions. In order to control inflation and promote economic growth, the PRC Government has introduced certain macro-economic policies, such as imposing commercial bank lending guidelines, which have the effect of restricting lending to certain industries. Some of these macro-economic policies and lending policies may limit the ability to obtain financing, thus reducing the ability to implement the business strategies. There is no assurance that the Zhejiang Provisional Government and the PRC Government as a whole will not introduce more restrictive or onerous policies in the future. Any change in the political, economic and social policies and conditions of Zhejiang Province, the PRC may bring uncertainty to the business operations and may materially and adversely affect the prospects and results of operations.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's largest and five largest customers for the year ended 31 December 2020 accounted for approximately 0.8% (2019: 0.6%) and 2.8% (31 December 2019: 2.7%), respectively, of the Group's total revenue from sales operations. Due to the nature of the business of the Group, it does not have any supplier.

To the best of the Directors' knowledge, none of the Directors or their respective close associates, and none of the existing Shareholders who owned more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers.

RELATIONSHIPS WITH EMPLOYEES AND CUSTOMERS

Further discussion of the relationship with employees and customers is set out in the section head "Environmental, Social and Governance Report" on pages 47 to 59 of this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020. Dividends of RMB3,000,000 were declared and approved by the Company in respect of the year ended 31 December 2019 to the equity shareholders of the Company during the year ended 31 December 2020.

The Company is not aware of any arrangement under which a Shareholder has waived or agreed to waive any dividends.

DIVIDEND POLICY

The Company has adopted a dividend policy (the “**Dividend Policy**”) to allow the Shareholders to participate in the Company’s profits whilst retaining adequate reserves for the Group’s future growth.

Determination Mechanism

Subject to the approval of the Shareholders and requirement of the relevant laws, the Company shall pay annual dividends to the Shareholders if the Group is profitable, the market environment is stable and there is no significant investment or commitment made by the Group. The Company has no fixed dividend policy specifying a dividend payout ratio. The declaration, payment and amount of dividends will be subject to our discretion, taking into consideration the criteria described below. The remaining net profits will be used for the Group’s development and operations. This dividend policy allows the Company to declare special dividends from time to time in addition to the annual dividends.

The Company’s ability to pay dividends will depend upon, among other things, the Group’s current and future operations, financial position, development pipeline, prevailing economic environment, contractual restrictions, capital and other reserve requirements, dividends received from the Company’s subsidiaries and associates, as well as any other conditions or factors which the Board deems relevant and having regard to the directors’ fiduciary duties.

Approval and Payment Procedures

Details of the procedures on dividend and other payments of the Company have been set out in articles 163 of the articles of association of the Company (the “**Articles of Association**”) posted on the websites of the Company and the Stock Exchange.

Review and Monitor of this Policy

The form, frequency and amount of dividend payment by the Company are subject to any restriction under the laws of the PRC and the Articles of Association. The Board reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the dividend policy at any time, and this dividend policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

SHARE CAPITAL

The share capital structure of the Company as at 31 December 2020 is set out as follows:

Class of shares	Number of shares	Proportion (%)
Domestic Shares	60,000,000	75.00
H Shares	20,000,000	25.00
Total	80,000,000	100.00

Details of the movements in share capital of the Company during the year are set out in note 24(a) to the consolidated financial statements.

DIRECTORS' REPORT

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2020, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

ANNUAL GENERAL MEETING

The annual general meeting of the Company ("**AGM**") will be held on 20 May 2021. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto to be dispatched by the Company.

CLOSURE OF REGISTER OF MEMBERS

For determining the holders of H Shares who will be entitled to attend and vote at the AGM to be held on 20 May 2021, the register of members of the Company will be closed from 20 April 2021 to 20 May 2021, both days inclusive, during which period no transfer of H Shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer of H Shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 19 April 2021, being the business day before the first day of closure of the register of members.

ENVIRONMENTAL PROTECTION

The Group uphold the concept of sustainable development, encourages environmental protection and strive to promote its awareness within the Group.

The Company considers the staff, shareholders and potential investors, government authorities, and suppliers as the key stakeholders, and values highly the expectations and opinions from the stakeholders on environment protection. The Company has commenced multi-dimensional risk analysis, identified issues on the environment, society and importance of governance which are the concerns in our own development and of the relevant stakeholders, and an environmental, social and governance report has been published.

For further information regarding our performance on environment, society and governance and compliance with relevant environmental laws and regulations during the current financial year, please refer to the section headed "Environmental, Social and Governance Report" on pages 47 to 59 in this annual report.

The Company has formulated the compliance procedures to ensure compliance with, in particular, the applicable laws, rules and regulations having material effect on it. The relevant employees and the relevant operating entities will be informed of any changes in the applicable laws, rules and regulations from time to time.

RESERVES

As at 31 December 2020, reserves available for distribution of the Company amounted to RMB47.0 million (31 December 2019: RMB33.0 million).

PRE-EMPTIVE RIGHTS

According to the laws of the PRC and the Articles of Association, there are no provisions on the pre-emptive rights to offer new Shares by the Company to its existing Shareholders on a pro rata basis.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

From the Listing Date to the year ended 31 December 2020 and up to the date of this annual report, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company.

DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this report were as follows:

Executive Directors

Mr. PAN Haihong (*Chief executive officer*)
Mr. ZHOU Guilin

Non-executive Directors

Mr. HUANG Qun (*Chairman of the Board*)
Mr. WANG Wenming
Mr. CHENG Jinyun
Mr. YE Yunzhi

Independent Non-executive Directors

Mr. XU Wei
Mr. JIN Hongqing
Mr. TSOI Ka Shing

The biographical details of the Directors are disclosed in the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 7 to 12 in this annual report.

SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, each of the Directors and Supervisors has entered into a service contract in respect of, among others, compliance of relevant laws and regulations, observations of the Articles of Association and provision on arbitration with the Company, for a term of three (3) years commencing on the Listing Date subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with the Articles of Association and the applicable laws, rules or regulations.

Save as disclosed above, none of the Directors or Supervisors has or is proposed to have a service contract with the Company (other than contracts expiring or determinable by the employer within one year without the payment of compensation other than statutory compensation).

DIRECTORS' REPORT

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year or subsisted at the end of the year ended 31 December 2020.

REMUNERATION OF THE DIRECTORS AND SUPERVISORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and five highest paid individuals are set out in notes 9 and 10 to the consolidated financial statements.

In 2020, the aggregate amount of fees, salaries, allowances, discretionary bonuses, contributions to retirement benefit scheme and other benefits in kind (if applicable) paid by the Company to Supervisors were approximately RMB94,000.

The following table sets forth the remuneration of the Supervisors details of:

Year ended 31 December 2020	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
Supervisors					
Xie Yanli	–	–	–	–	–
Yang Mengjie	–	–	–	–	–
Xie Huihui	–	–	94	–	94
	–	–	94	–	94

The emoluments of the Directors and Supervisors and the salaries of the senior management are determined with reference to salaries paid by comparable companies, their respective time commitment and responsibilities and the performance of the Group.

RIGHTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2020 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors and Supervisors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights during the year ended 31 December 2020.

DIRECTORS' REPORT

DIRECTORS' AND SUPERVISORS' COMPETING INTERESTS

None of the Controlling Shareholders, Directors and Supervisors and their respective close associates has any interests in any business which directly or indirectly competes or is likely to compete with the Group's business.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Details of corporate governance practice adopted by the Company are set out in the section of "Corporate Governance Report" of this Annual Report.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND THE CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2020, none of our Directors, Supervisors or the chief executives of the Company has any interests or short positions in any Shares, underlying shares of the Company (the "Share") and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will be required: (i) to be notified to our Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of Part XV of the SFO, to be entered in the register required to be kept therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code"), to be notified to our Company and the Stock Exchange.

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2020, the interests and short positions of the persons (other than a Director or chief executive of the Company) in the Shares and underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of SFO and based on the information available were as follows:

Name of Shareholders	Capacity/ Nature of interest	Number and class of securities (note 1)	Approximate percentage of shareholding (note 2)
Wenling City Market Group Company Limited* (溫嶺市市場集團有限公司) ("Market Group")	Beneficial owner (Note 3)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Market Development Service Centre* (溫嶺市市場開發服務中心) ("Market Development Service Centre")	Interest in controlled corporation (Notes 3 & 4)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Qiaoling Investment Development Company Limited* (溫嶺市嶠嶺投資發展有限公司) ("Qianyang Investment")	Beneficial owner (Note 3)	58,200,000 Domestic Shares (L)	72.75%

DIRECTORS' REPORT

Name of Shareholders	Capacity/ Nature of interest	Number and class of securities (note 1)	Approximate percentage of shareholding (note 2)
Wenling City Wenqiao Town People's Government* (溫嶺市溫嶠鎮人民政府) ("Wenqiao Town People's Government")	Interest in controlled corporation (Notes 3 & 5)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Maowei Investment Company Limited* (溫嶺市茅威投資有限公司) ("Maowei Investment")	Beneficial owner (Note 3)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Wenqiao Town Maoyang Village Share Economic Cooperative* (溫嶺市溫嶠鎮茅洋村股份經濟合作社) ("Maoyang Village Share Economic Cooperative")	Interest in controlled corporation (Note 6)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Wenqiao Town Maoyang Village Villagers Committee* (溫嶺市溫嶠鎮茅洋村村民委員會) ("Maoyang Village Committee")	Interest in controlled corporation (Notes 3 & 6)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Qianyang Investment Company Limited* (溫嶺市前洋投資有限公司) ("Qianyang Investment")	Beneficial owner (Note 3)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Wenqiao Town Qianyangxia Village Share Economic Cooperative* (溫嶺市溫嶠鎮前洋下村股份經濟合作社) ("Qianyangxia Village Share Economic Cooperative")	Interest in controlled corporation (Note 7)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Wenqiao Town Qianyangxia Village Villagers Committee* (溫嶺市溫嶠鎮前洋下村村民委員會) ("Qianyangxia Village Committee")	Interest in controlled corporation (Notes 3 & 7)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Shangyu Investment Company Limited* (溫嶺市上宇投資有限公司) ("Shangyu Investment")	Beneficial owner (Note 3)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Wenqiao Town Shangjie Village Share Economic Cooperative* (溫嶺市溫嶠鎮上街村股份經濟合作社) ("Shangjie Village Share Economic Cooperative")	Interest in controlled corporation (Note 8)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Wenqiao Town Shangjie Village Villagers Committee* (溫嶺市溫嶠鎮上街村村民委員會) ("Shangjie Village Committee")	Interest in controlled corporation (Notes 3 & 8)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Zhongjie Hede Investment Company Limited* (溫嶺市中街和德投資有限公司) ("Zhongjie Hede Investment")	Beneficial owner (Note 3)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Wenqiao Town Zhongjie Village Share Economic Cooperative* (溫嶺市溫嶠鎮中街村股份經濟合作社) ("Zhongjie Village Share Economic Cooperative")	Interest in controlled corporation (Note 9)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Wenqiao Town Zhongjie Village Villagers Committee* (溫嶺市溫嶠鎮中街村村民委員會) ("Zhongjie Village Committee")	Interest in controlled corporation (Notes 3 & 9)	58,200,000 Domestic Shares (L)	72.75%
Wenling City Botao Investment Company Limited* (溫嶺市博濤投資有限公司) ("Botao Investment")	Beneficial owner (Note 3)	58,200,000 Domestic Shares (L)	72.75%

DIRECTORS' REPORT

Name of Shareholders	Capacity/ Nature of interest	Number and class of securities <i>(note 1)</i>	Approximate percentage of shareholding <i>(note 2)</i>
Wenling City Wenqiao Town Xuzhai Village Share Economic Cooperative* (溫嶺市溫嶠鎮許宅村股份經濟合作社) ("Xuzhai Village Share Economic Cooperative")	Interest in controlled corporation <i>(Note 10)</i>	58,200,000 Domestic Shares (L)	72.75%
Wenling City Wenqiao Town Xuzhai Village Villagers Committee* (溫嶺市溫嶠鎮許宅村村委員會)("Xuzhai Village Committee")	Interest in controlled corporation <i>(Notes 3 & 10)</i>	58,200,000 Domestic Shares (L)	72.75%
Wenling City Zhang Laoqiao Investment Company Limited* (溫嶺市張老橋投資有限公司)("Zhang Laoqiao Investment")	Beneficial owner <i>(Note 3)</i>	58,200,000 Domestic Shares (L)	72.75%
Wenling City Wenqiao Town Zhang Laoqiao Village Share Economic Cooperative* (溫嶺市溫嶠鎮張老橋村股份經濟合作社) ("Zhang Laoqiao Village Share Economic Cooperative")	Interest in controlled corporation <i>(Note 11)</i>	58,200,000 Domestic Shares (L)	72.75%
Wenling City Wenqiao Town Zhang Laoqiao Village Villagers Committee* (溫嶺市溫嶠鎮張老橋村村委員會)("Zhang Laoqiao Village Committee")	Interest in controlled corporation <i>(Notes 3 & 11)</i>	58,200,000 Domestic Shares (L)	72.75%

Notes:

- The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Domestic Shares.
- The calculation is based on the total number of 80,000,000 Shares in issue comprising 60,000,000 Domestic Shares and 20,000,000 H Shares as at 31 December 2020.
- Pursuant to the Concert Party Agreement and Concert Party Supplemental Agreement, details of which are set out in paragraph headed "History, Development and Reorganisation – Concert Party Arrangement" of the Prospectus, immediately following completion of the Global Offering (without taking into account any H Shares to be issued upon exercise of the Over-allotment Option), Market Development Service Centre, Wenqiao Town People's Government, Qianyangxia Village Committee, Maoyang Village Committee, Zhongjie Village Committee, Shangjie Village Committee, Xuzhai Village Committee and Zhang Laoqiao Village Committee are acting in concert with one another and each of them is deemed to exercise or control the exercise of 72.75% of the voting power at general meetings of our Company, and is therefore deemed to be interested under the SFO.
- Market Development Service Centre holds the entire equity interest of Market Group. Therefore, under the SFO, Market Development Service Centre is deemed or taken to be interested in all the Shares which are beneficially owned by Market Group.
- Wenqiao Town People's Government holds the entire equity interest of Qiaoling Investment. Therefore, under the SFO, Wenqiao Town People's Government is deemed or taken to be interested in all the Shares which are beneficially owned by Qiaoling Investment.
- Maoyang Village Committee holds the entire equity interest of Maoyang Village Share Economic Cooperative which holds the entire equity interests of Maowei Investment. Therefore, under the SFO, each of Maoyang Village Committee and Maoyang Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Maowei Investment.

DIRECTORS' REPORT

7. Qianyangxia Village Committee holds the entire equity interest of Qianyangxia Village Share Economic Cooperative which holds the entire equity interests of Qianyang Investment. Therefore, under the SFO, each of Qianyangxia Village Committee and Qianyangxia Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Qianyang Investment.
8. Shangjie Village Committee holds the entire equity interest of Shangjie Village Share Economic Cooperative which holds the entire equity interests of Shangyu Investment. Therefore, under the SFO, each of Shangjie Village Committee and Shangjie Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Shangyu Investment.
9. Zhongjie Village Committee holds the entire equity interest of Zhongjie Village Share Economic Cooperative, which holds the entire equity interests of Zhongjie Hede Investment. Therefore, under the SFO, each of Zhongjie Village Committee and Zhongjie Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Zhongjie Hede Investment.
10. Xuzhai Village Committee holds the entire equity interest of Xuzhai Village Share Economic Cooperative which holds the entire equity interests of Botao Investment. Therefore, under the SFO, each of Xuzhai Village Committee and Xuzhai Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Botao Investment.
11. Zhang Laoqiao Village Committee holds the entire equity interest of Zhang Laoqiao Village Share Economic Cooperative which holds the entire equity interests of Zhang Laoqiao Investment. Therefore, under the SFO, each of Zhang Laoqiao Village Committee and Zhang Laoqiao Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Zhang Laoqiao Investment.

Save as disclosed above, as at the date of this report, no person had interest or short position in the Shares or underlying Shares of the Company which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

EQUITY-LINKED AGREEMENTS

During the year ended 31 December 2020, the Company did not enter into any equity-linked agreements, nor did any other equity-linked agreements exist during the year ended 31 December 2020.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date (i.e. 4 April 2021) prior to the issue of the annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

PERMITTED INDEMNITY PROVISIONS

The Company has arranged for appropriate liability insurance to indemnify the Directors, Supervisors and senior officers for their liabilities arising out of corporate activities. For the year ended 31 December 2020, no claim has been made against the Directors, Supervisors and senior officers

DIRECTORS' AND SUPERVISORS INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director/Supervisor or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year under 31 December 2020 or at any time during the year ended 31 December 2020.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the consolidated financial statements, no Controlling Shareholder or any of its subsidiaries has any contract of significance (including contract of significance for the provision of services) with the Company or its subsidiaries during the year ended 31 December 2020.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2020 are set out in note 20 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 4 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2020, the Group acquired additional property, plant and equipment of approximately RMB20 thousand. Details of the movements are set out in note 13 to the consolidated financial statements.

RETIREMENT BENEFIT PLAN

The Group participates in defined contribution retirement benefit plan managed by the PRC local government authorities for the Group's eligible employees in the PRC. Particulars of these retirement plans are set out in note 7 to the consolidated financial statements.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors, namely Mr. XU Wei, Mr. JIN Hongqing and Mr. TSOI Ka Shing, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

DIRECTORS' REPORT

RELATED PARTY TRANSACTION

Details of related party transactions of the Group are set out in note 27 to the consolidated financial statements. None of the related party transactions disclosed in note 27 to the consolidated financial statements constitute connected transaction or continuing connected transaction (as defined in Chapter 14A of the Listing Rules) of the Company for the year ended 31 December 2020. Accordingly, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DEED OF NON-COMPETITION

The Company has received the written confirmation from each of Market Group, Market Development Service Centre, Qiaoling Investment, Wenqiao Town People's Government, Maowei Investment, Maoyang Village Share Economic Cooperative, Maoyang Village Committee, Qianyang Investment, Qianyangxia Village Share Economic Cooperative, Qianyangxia Village Committee, Shangyu Investment, Shangjie Village Share Economic Cooperative, Shangjie Village Committee, Zhongjie Hede Investment, Zhongjie Village Share Economic Cooperative, Zhongjie Village Committee, Botao Investment, Xuzhai Village Share Economic Cooperative, Xuzhai Village Committee, Zhang Laoqiao Investment, Zhang Laoqiao Village Share Economic Cooperative and Zhang Laoqiao Village Committee (the "**Covenantors**") in respect of the compliance with the terms of the non-competition undertakings (the "**Non-competition Undertakings**"), under the deed of non-competition entered into between the Covenantors and the Company. Each of the Covenantors has confirmed and declared that he/it had strictly complied with the Non-competition Undertakings without any breach thereof. All the independent non-executive Directors had reviewed the matters relating to the enforcement of the Non-competition Undertakings and consider that the terms of the Non-competition Undertakings have been complied with by each of the Covenantors for the year ended 31 December 2020.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2020 have been audited by KPMG, Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance.

The Company appointed KPMG as auditor of the Company for the year ended 31 December 2020. KPMG will retire, and being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for the re-appointment of KPMG as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited

PAN Haihong

Director and Chief Executive Officer

Wenling City, the PRC, 24 March 2021

* For identification purpose only

SUPERVISORS' REPORT

To the Shareholders,

For the year ended 31 December 2020, the Supervisory Committee of Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited (the "**Supervisory Committee**"), in compliance with the provision of the Company Law, the Listing Rules and the articles of association of the Company, under their fiduciary duties, took an active role to work reasonably and cautiously to protect the interests of the Company and its shareholders.

During the year, the Supervisory Committee attended all the Board meetings, the annual general meeting, and class meetings of the Company. It provided reasonable suggestions and opinions to the Board in respect of the operations and development plans of the Company. It also strictly and effectively monitored and supervised the management of the Company, to ensure that it was in compliance with the PRC laws and the articles of association of the Company, and in the interests of shareholders and employees when making significant policies and decisions.

We have reviewed and agreed to the Directors' report, audited consolidated financial statements to be proposed by the Board for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, chief executive officer and other senior management of the Company had during the year strictly observed their fiduciary duties, acted diligently and exercised their authorities faithfully in the best interests of the Company and the shareholders as a whole. None of the Directors, chief executive officer and members of the senior management had been found to have abused their authorities, damaged the interests of the Company and infringed upon the interests of shareholders and employees of the Company.

The Supervisory Committee is satisfied with the achieved operating results and cost-effectiveness of the Company in 2020 and has great confidence in the future of the Company.

Finally, I, on behalf of the Supervisory Committee, would like to thank all shareholders and staff of the Company for their support and patronage for the Supervisory Committee.

By Order of the Supervisory Committee
**Wenling Zhejiang Measuring and Cutting Tools
Trading Centre Company Limited**

Ms. XIE Yanli
Chairlady

Wenling City, the PRC, 24 March 2021

CORPORATE GOVERNANCE REPORT

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. The Company is committed to maintain high standards of corporate governance and protect the interests of its Shareholders in an open manner.

The Board comprises two executive Directors, four non-executive Directors and three independent non-executive Directors. The Board has adopted the code provisions (the “**Code Provisions**”) of the Corporate Governance Code (“**CG Code**”) set out in Appendix 14 to the Listing Rules. Throughout year ended 31 December 2020 and up to the date of this annual report, the Company has fully complied with the Code Provisions.

The Company strictly complied with the CG Code. The Directors will review the corporate governance policies and compliance with the CG Code each financial year.

BOARD OF DIRECTORS

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its Shareholders. The Board has established three Board committees, being the audit committee (the “**Audit Committee**”), the remuneration committee (the “**Remuneration Committee**”), and the nomination committee (the “**Nomination Committee**”) (each a “**Board Committee**” and collectively the “**Board Committees**”), to oversee different areas of the Company’s affairs. The Board has delegated the authority for day-to-day management and operation of the Group to the senior management of the Group. As of the date of this annual report, the composition of the Board is as follows:

Executive Directors:

Mr. PAN Haihong (*Chief Executive Officer*)

Mr. ZHOU Guilin

Non-executive Directors:

Mr. HUANG Qun (*Chairman of the Board*)

Mr. WANG Wenming

Mr. CHENG Jinyun

Mr. YE Yunzhi

Independent Non-executive Directors:

Mr. XU Wei

Mr. JIN Hongqing

Mr. TSOI Ka Shing

CORPORATE GOVERNANCE REPORT

The Chairman of the Board is Mr. HUANG Qun and the CEO of the Company is Mr. PAN Haihong. The roles of the Chairman of the Board and the CEO of the Company are separated to ensure their respective independence, accountability and responsibility. The major duties of the Chairman are to provide leadership to the Board and spearhead overall corporate development and strategic planning whilst the CEO is responsible for implementing the decisions and strategy approved by the Board and managing day-to-day operations of the Group with the support of the Executive Directors.

The biographical details of each Director are set out in the section headed “Biographical Details of Directors, Supervisors and Senior Management” on pages 7 to 12 in the annual report. A list of the Directors identifying their role and function and whether they are independent non-executive Directors are available on the Company’s website.

Each of the executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 21 November 2018. The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months’ written notice to the other.

Each of the Non-executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 21 November 2018. The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months’ written notice to the other.

Each of the independent non-executive Directors has been appointed for an initial term of three years commencing from 1 August 2018 (Mr. JIN Hongqing and Mr. TSOI Ka Shing) and 9 November 2019 (Mr. XU Wei) which may be terminated by either party by giving not less than three months’ written notice. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months’ written notice to the other.

There is no financial, business or other material/relevant relationships among the members of the Board.

The functions and duties of the Board include but are not limited to: convening Shareholders’ general meetings and reporting the Board’s work at the Shareholders’ general meetings; implementing the resolutions passed at the Shareholders’ general meetings; determining our business plans and investment plans; preparing annual budget proposals and final accounts proposals; preparing plans for profit distribution and recovery of losses; preparing plans for the increase or decrease in registered capital; and exercising other power, functions and duties as conferred by the Articles of Association. Each of the Directors has entered into a service contract with the Company.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Company, and the training and continuous professional development of Directors and senior management. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

CORPORATE GOVERNANCE REPORT

Directors' Continuous Training and Professional Development

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with reasonable care, skill and diligence, in pursuit of the development of the Company. Each of the newly appointed Director will receive an induction to ensure that he/she has a proper understanding of the business and operations of the Company and that he/she is fully aware of his duties and responsibilities as a director under applicable rules and requirements.

Training sessions have been provided to the Directors before the Listing to explain the on-going obligations and responsibilities as a director of a Hong Kong listed company. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors to ensure compliance and enhance their awareness of good corporate governance practices.

Name of Director	Types of training	
	Attending in-house training organized by professional organizations	Reading materials updating on new rules and regulations
Executive Directors:		
Mr. PAN Haihong	✓	✓
Mr. ZHOU Guilin	✓	✓
Non-executive Directors:		
Mr. HUANG Qun	✓	✓
Mr. WANG Wenming	✓	✓
Mr. CHENG Jinyun	✓	✓
Mr. YE Yunzhi	✓	✓
Independent Non-executive Directors:		
Mr. XU Wei	✓	✓
Mr. JIN Hongqing	✓	✓
Mr. TSOI Ka Shing	✓	✓

CORPORATE GOVERNANCE REPORT

Independence of Independent Non-Executive Directors

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Company to protect the overall interests of the Shareholders and the Company.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, namely, Mr. XU Wei, Mr. JIN Hongqing and Mr. TSOI Ka Shing, representing more than one-third of the Board. One of the independent non-executive Directors, Mr. TSOI Ka Shing, has the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive director has submitted annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

Board Committees and Supervisory Committee

The Board is supported by a number of committees, including the Audit Committee, Nomination Committee, and Remuneration Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference of the Audit Committee, Nomination Committee and the Remuneration Committee are respectively available on the websites of the Company and the Stock Exchange.

All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

The Supervisory Committee consists of three Supervisors, comprising one representatives of employees (namely Mr. XIE Huihui) and two internal supervisors (namely Ms. XIE Yanli and Ms. YANG Mengjie). Ms. XIE Yanli is chairlady of the Supervisory Committee. Each term of office of a supervisor is three years and he/she may serve consecutive terms if re-elected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The Supervisory Committee may exercise its powers: (i) to review the Company's financial position; (ii) to supervise the Directors and senior management in their performance of their duties and to propose the removal of Directors and senior management who have violated any laws, regulations, the Articles of Association or Shareholders' resolutions; (iii) when the acts of a Director or senior management personnel are detrimental to the Company's interests, to require the director and senior management to correct these acts; (iv) to propose the convening of extraordinary Shareholders' general meetings and to convene and preside over Shareholders' general meetings when the Board fails to perform the duty of convening and presiding over Shareholders' general meetings under the PRC Company Law; (v) to submit proposals to the Shareholders' general meetings; (vi) to bring actions against Directors and senior management pursuant to the relevant provisions of the PRC Company Law; and (vii) to exercise any other authority stipulated in the Articles of Association.

Supervisors may be present at Board meetings and make inquiries or proposals in respect of the resolutions of the Board.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Company has established an audit committee (the “**Audit Committee**”) on 7 December 2020 with written terms of reference in compliance with Code C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of our Audit Committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the consolidated financial statements and material advice in respect of financial reporting, oversee the internal control and risk management systems of our Company.

At present, the Audit Committee comprises one non-executive Director, namely Mr. HUANG Qun, and two independent non-executive Directors, namely Mr. TSOI Ka Shing and Mr. XU Wei. Mr. TSOI Ka Shing is the chairman of the Audit Committee.

Pursuant to the meeting of the Audit Committee on 24 March 2021, the Audit Committee has reviewed, among other things, the consolidated financial statements of the Group for the year ended 31 December 2020, including the accounting principles and practices adopted by the Company, report prepared by the external auditor covering major findings in the course of the audit, the risk management and internal control systems and the overall effectiveness of the Company’s internal audit function and the adequacy of resources, qualifications and experience of the staff and the accounting and financial reporting matters, and selection and appointment of the external auditor. For the period from the Listing Date to 31 December 2020, no meeting of the Audit Committee was held because the Audit Committee did not have matters to discuss with the auditor shortly after the Listing. Therefore there is no attendance record of the members of the Audit Committee at the meeting of the Audit Committee during the reporting period.

Remuneration Committee

The Company has established a remuneration committee (the “**Remuneration Committee**”) on 7 December 2020 with written terms of reference in compliance with Code B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of our Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors, Supervisors and senior management of the Group and review performance based remuneration.

At present, the Remuneration Committee comprises one executive Director, namely Mr. PAN Haihong, and two independent non-executive Directors namely Mr. TSOI Ka Shing and Mr. JIN Hongqing. Mr. JIN Hongqing is the chairman of the Remuneration Committee.

Pursuant to the first meeting of the Remuneration Committee on 24 March 2021, the Remuneration Committee has reviewed and determined, with delegated responsibility, the remuneration and compensation packages (including incentive plans) of the Directors, Supervisors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of the Directors, Supervisors and senior management and the performance of the Company. For the period from the Listing Date to 31 December 2020, no meeting of the Remuneration Committee was held. Therefore there is no attendance record of the members of the Remuneration Committee at the meeting of the Remuneration Committee during the reporting period.

CORPORATE GOVERNANCE REPORT

Remuneration of Directors, Supervisors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of Directors, Supervisors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2020 are set out in note 9 to the consolidated financial statements and details of the remuneration of each of the Supervisors for the year ended 31 December 2020 are set out in pages 26 in this report.

The remuneration of the senior management by band for the year ended 31 December 2020 is as follows:

Remuneration bands (RMB)	Number of individuals
0-1,000,000	5

Nomination Committee

The Company has established a Nomination Committee on 7 December 2020 with written terms of reference in compliance with Code A.5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board and to make recommendations to the Board on any proposed changes to the Board composition; to assess the independence of independent non-executive Directors; to identify individuals suitably qualified as potential Board members and to select or make recommendations to the Board regarding candidates to fill vacancies on our Board; and to make recommendations to the Board on the appointment and re-appointment of Directors and succession planning of the Directors.

At present, the Nomination Committee comprises one non-executive Director, namely Mr. HUANG Qun, and two independent non-executive Directors namely Mr. XU Wei and Mr. JIN Hongqing. Mr. HUANG Qun is the chairman of the Nomination Committee.

Pursuant to the first meeting of the Nomination Committee on 24 March 2021, the Nomination Committee has reviewed the policy for the nomination of Directors the structure, size and composition of the Board and assessed independence of the independent non-executive Directors. For the period from the Listing Date to 31 December 2020, no meeting of the Nomination Committee was held. Therefore there is no attendance record of the members of the Nomination Committee at the meeting of the Nomination Committee during the reporting period.

CORPORATE GOVERNANCE REPORT

NOMINATION POLICY

The Board has adopted a nomination policy on 1 January 2019 (the “**Nomination Policy**”) which sets out the selection criteria and nomination procedures to identify, select and recommend candidates for Directors.

1. Selection Criteria

- (a) The Nomination Committee is authorized by the Board to determine the nomination of directors, the procedure, process and criteria to be adopted for the purposes of selecting and recommending candidates for directorship, and shall make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the chairman and the chief executive officer.
- (b) In assessing the suitability of a proposed candidate, the Nomination Committee may make reference to certain criteria such as the Company’s need, the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in trading centre operation industry and measuring and cutting tools industry and/or other professional areas, the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities and, in case of independent non-executive director, the independence requirements set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time), and seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.
- (c) Where necessary, the Nomination Committee should seek independent professional advice to access a wider range of potential candidates.
- (d) Proposed candidate will be asked to submit the necessary personal information, together with his/her written consent to be appointed as a director and to the public disclosure of his/her personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a director.
- (e) Non-executive director will receive a formal letter of appointment on his/her appointment to the Board, setting out clearly the expectations of him/her in terms of time commitment, committee service and involvement outside board meetings.

CORPORATE GOVERNANCE REPORT

2. Nomination Procedures

The secretary of the Nomination Committee shall invite nominations of candidates from Board members if any, for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by Board members.

Any director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and be subject to re-election at such meeting, and any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Board may revoke or terminate any of the appointment of a managing director, joint managing director or deputy managing director in accordance with Article 103 of the articles of association of the Company.

A shareholder of the Company can serve a notice to the Company within the lodgment period of its intention to propose a resolution to elect a certain person as a director. Details of the procedure has been set out in the "Procedure for Shareholders to Propose a Person for Election as a Director of the Company" posted on the website of the Company.

3. Review and Monitor of this Policy

- (a) The Nomination Committee shall review the structure, size, composition (including skills, knowledge and experience) of the Board on a regular basis at least annually and diversity of the Board to ensure that it has a balance of expertise, skills and experience and diversity of perspective appropriate to the requirements for the business of the Company.
- (b) The Nomination Committee shall keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to complete effectively in the marketplace.
- (c) The Nomination Committee shall keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates.

CORPORATE GOVERNANCE REPORT

4. Board Diversity Policy

The Company has adopted a board diversity policy (the “**Board Diversity Policy**”) setting out the approach to achieve diversity on the Board. The Nomination Committee reviews and assesses the Board composition on behalf of the Board and recommends the appointment of new Directors, taking into account a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service and any other factors that the Board may consider relevant and applicable from time to time. While the Board recognises that gender diversity at the Board can be improved, given its current composition of single gender Directors, the principle of Director’s appointments will be based on meritocracy, and candidates will be considered against objective criteria, taking into account factors based on the own business model and special needs from time to time, and with due regard to the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect.

The Company values gender diversity and will continue to take steps to promote gender diversity at all levels of the Company, including but without limitation at the Board and senior management. In recognising the importance of gender diversity, the Company is committed to providing career development opportunities for female staff and to engaging more restheces in training the female staff with an aim to promoting them to the position of senior management or Director. The Company will also continue to recruit female talents based on the recruitment policy and with reference to the Board Diversity Policy as a whole.

To ensure gender diversity of the Board, the Nomination Committee will continue and from time to time identify suitable candidates of both genders to the Board to be appointed as Directors. To allow the Shareholders to be able to judge whether board diversity is achieved, we will provide the Shareholders with detailed information of each candidate for appointment or re-election to the Board through announcements and circulars published prior to general meetings of the Company.

The Nomination Committee will review the Board Diversity Policy, assess its effectiveness and, where necessary, make any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

The Nomination Committee considered that an appropriate balance of diversity perspective of the Board is maintained during the year ended 31 December 2020. Based on the review by the Nomination Committee, the Board considered that the Company has achieved the measurable objectives set for implementing the board diversity policy for the year ended 31 December 2020.

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company’s policies, practices on corporate governance, training and continuous professional development of the directors and senior management, the Company’s policies and practices on compliance with legal and regulatory requirements, etc. This corporate governance report has been reviewed by the Board in discharge of its corporate governance functions in compliance with the Code Provision D.3 of the Corporate Governance Code.

CORPORATE GOVERNANCE REPORT

Attendance Record of Directors

The attendance record of each of the current Directors at the Board meetings and the general meetings of the Company held during the year ended 31 December 2020 is set out in the table below. The Directors did not authorise any alternate Director to attend Board or Board Committee meetings.

Name of Directors	Attendance/Number of Meetings		
	Board	First General Meeting	Extraordinary General Meeting
Mr. PAN Haihong	2/2	1/1	1/1
Mr. ZHOU Guilin	2/2	1/1	1/1
Mr. HUANG Qun	2/2	1/1	1/1
Mr. WANG Wenming	2/2	1/1	1/1
Mr. CHENG Jinyun	2/2	1/1	1/1
Mr. YE Yunzhi	2/2	1/1	1/1
Mr. XU Wei	2/2	1/1	1/1
Mr. JIN Hongqing	2/2	1/1	1/1
Mr. TSOI Ka Shing	2/2	1/1	1/1

Board Meetings

Meetings of the Board shall be held regularly at least four times each year and shall be convened by the chairman of the Board. If a Director is unable to attend a Board meeting, he may appoint another Director by a written power of attorney to attend on his behalf. Such a power of attorney shall specify the scope of authorization. Directors attending Board meetings on behalf of other directors shall exercise their power as directors within their scope of authorization. If a Director fails to attend a Board meeting and does not appoint an attorney to attend, the Director is deemed to have waived his rights to vote at that meeting. Each Director shall have one vote. Questions arising at any meetings of the Board of Directors shall be determined by a majority of votes. Where the numbers of votes cast for and against a resolution are equal, the chairman shall have the right to cast an additional vote.

For the period from the Listing Date to 31 December 2020, no meeting of the Board was held because the Board did not have matters to discuss shortly after the Listing. Therefore there are only two attendance records of the members of Board at the meeting of the Board during the reporting period.

CORPORATE GOVERNANCE REPORT

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct regarding Directors’ and Supervisors’ securities transactions. Upon specific enquiries, all Directors and Supervisors confirmed that they have complied with the relevant provisions of the Model Code throughout the year ended 31 December 2020 and up to the date of this report.

JOINT COMPANY SECRETARIES

The Directors have access to the services of the joint company secretaries to ensure that the Board procedures and followed. Starting from 1 February 2021, Ms. Fok Po Yi (“**Ms. Fok**”) ceased to be one of our joint company secretaries, and Ms. Chan Tsz Yu (“**Ms. Chan**”) replaced Ms. Fok as the joint company secretary of the Company with effect from 1 February 2021. For more details, please refer to the announcement of the Company dated 1 February 2021.

In compliance with Rule 3.29 of the Listing Rules, Mr. Xu and Ms. Fox have undertaken no less than 15 hours of relevant professional training for the year ended 31 December 2020.

As at the date of this report, the joint company secretaries of the Company are Mr. Xu Yi (“**Mr. Xu**”) and Ms. Chan.

Mr. Xu joined the Company and acts as a person-in-charge in office from September 2016 to April 2018, and has been appointed as a personnel of information disclosure of our Company since April 2018 and the joint company secretary of our Company since August 2018.

Ms. Chan is the assistant manager of SWCS Corporate Services Group (Hong Kong) Limited and appointed as the joint company secretary. Ms. Chan has the necessary qualifications and experience as required under Rule 3.28 and 8.17 of the Listing Rules. The main contact person of Ms. Chan in the Company is Mr. Xu.

For more details of Mr. Xu and Ms. Chan, please see the section headed “Biographical Details of the Directors, Supervisors and Senior Management – Joint Company Secretaries.”

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial Reporting

The Board acknowledges its responsibility to prepare the Company’s financial statements which give a true and fair view of the Company’s state of affairs, results and cash flows for the year and in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Company has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

CORPORATE GOVERNANCE REPORT

Internal Controls and Risk Management

The Board acknowledges its responsibility for the risk-management and internal control system and reviewing their effectiveness.

The Board has put in place a set of internal control and risk management protocols to address various operational, financial, legal and market risks identified in relation to our operations, including but not limited to procurement and sales management, inventory management, research and development management, credit risk, liquidity risk, foreign exchange risk, human resources risk management, and various other financial and operational control and monitoring procedures. The risk management protocols and policies set forth procedures to identify, categorize, analyze and mitigate various risks and the relevant reporting hierarchy of risks identified in our operations. The Board of Directors has the general power to manage our operations and is responsible for the risk management and internal control systems and reviewing their effectiveness. After due consideration, our Directors are of the view that our current risk management and internal control systems are adequate and effective.

The management of the Company has established a set of comprehensive structure, standards and procedures in areas of operational, financial, legal and market risks for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records and a sound cash management system; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors. The Board reviews the risk management and internal controls annually.

Also, the Company has an internal audit function to carry out the analysis and independent appraisal of the effectiveness of the Group's risk management, internal control systems and perform an internal audit procedure which covered certain material controls, including the financial, operational and compliance controls as well as risk management functions during the year ended 31 December 2020. The assessment report was reviewed by the Audit Committee and the Board. The Board has conducted a review of, and is satisfied with the effectiveness and adequacy of the risk management and internal control systems and the internal audit function for the year ended 31 December 2020.

The Company has developed a policy for handling and dissemination of inside information. The policy provides a general guide to the Company's Directors, officers and relevant employees in handling confidential information and monitoring information disclosure.

External Auditor's Remuneration

KPMG has been appointed as the external auditor of the Company, the Audit Committee has been notified of the nature and the service charges of non-audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditor.

For the year ended 31 December 2020, the fees payable to KPMG in respect of its annual audit services provided to the Company was RMB0.95 million. The fees paid and payable to KPMG for the reporting accountant service in relation to the listing of the Company on the Main Board of the Stock Exchange was approximately RMB5.6 million.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year under review.

The Directors acknowledge their responsibility for preparing the accounts of the Group.

The responsibilities of KPMG, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

CORPORATE GOVERNANCE REPORT

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings

Extraordinary general meetings may be convened by Directors on requisition of one or more shareholders holding, at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the Secretary of the Company by mail to 40/F, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong, to require an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, shareholders and investors of the Company may send written enquiries to the Company by mail to 40/F, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong or email enquiry to enquiry@wenlingworking.com.

Investor Relations

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at <http://cnglj.com> and the Stock Exchange.

Constitutional Documents

The current Articles of Association were adopted with effect from the Listing Date. As at the date of this report, no change has been made to the Articles of Association after the Listing Date.

The Articles of Association is available on the websites of the Stock Exchange and the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This is the Environmental, Social and Governance (“**ESG**”) Report (the “**ESG Report**”) of the Group for the year ended 31 December 2020, which outlines the principles and sustainably philosophy of the Group in fulfilling its corporate social responsibility (“**CSR**”) and illustrates the relationship between the Group and its major stakeholders with a vision and commitments for its CSR.

The Board has overall responsibility for the Group’s ESG strategy and reporting. The Board is responsible for evaluating and determining the Group’s ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The management will regularly report the relevant state to the Board.

To respect to the reporting principles, the Group ensures that ESG issues discussed in this Report are sufficiently important and material to investors and stakeholders including but not limited to shareholders, governments, employees, clients, suppliers and communities.

In order to determine what issues are relevant and material to our business with respect to sustainability, the Group is aware that the key is to understand what issues that the stakeholders concerned most. Therefore, the Group defines the stakeholders as people who affect our business or who are affected by our business. In the daily business, the Group actively exchange information with the stakeholders through the transparent platform while the Group is devoted to continuous improvement of the communication system. In addition, the Group is committed to maintaining a long-term partnership with the stakeholders and are actively engaged in addressing their concerns with timely follow-up actions. The Group is dedicated to create a sustainable growth for the benefits of all our stakeholders.

During the year ended 31 December 2020 (the “**Reporting Period**”), the Group continued to improve its performance in fulfilling its CSR through diversified measures. The ESG report provides details of the Company’s policies and practices in two aspects namely environmental and social for the Reporting Period.

This report covered the overall environmental and social performance of the two subsidiaries of the Group, namely Wenling Measuring and Cutting Tools Network Co., Ltd.* (溫嶺工量刃具網有限公司) and Wenling Sunrise Real Estate Development Co., Ltd.* (溫嶺市旭日投資有限公司), further details of which are set out in note 17 to the consolidated financial statements during the year ended 31 December 2020.

ESG MANAGEMENT APPROACH

The Group integrates ESG elements in our businesses as we move towards a sustainable future. The Group continues to strengthen the ESG governance to facilitate effective management across our business portfolios. The Group is establishing a designated ESG working group for formulating ESG strategies, monitoring ESG performance and optimizing ESG disclosure.

SCOPE OF THE ESG REPORT

The core business of the Group is the design, manufacture and sale of cylinder blocks and cylinder heads in the PRC. The data disclosed in the ESG Report was collected from the main office and the production plants of the Group in the PRC. The Group will continue in assessing the impacts of its business on the major ESG aspects and to include in the ESG Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING FRAMEWORK

The Group has prepared the ESG report pursuant to the Environmental, Social and Governance Reporting Guide (the “**ESG Reporting Guide**”) set out in Appendix 27 to the Listing Rules. The ESG Report adhere to the reporting principles of the ESG Reporting Guide, and complies with the “Comply or Explain” provisions therein. In view of our first time disclosure of certain key performance indicators (“**KPIs**”), which is considered as material by the Group, during the Reporting Period, the Group will continue to optimize and improve the disclosure of KPIs.

ACCESS OF THE ESG REPORT

The ESG report is released in both printed and online versions. The online version is available on the Stock Exchange’s website (www.hkexnews.hk) and the Company’s website (<http://cnglj.com>).

This report has both English and Chinese versions. Should there be any discrepancies between the two versions, the English version shall prevail.

CONTACT INFORMATION

We highly appreciate and welcome your feedback and comment on the ESG Report so that we may meet the stakeholder’s interests and for our sustainability initiatives. For any enquires or recommendations, please send the written enquiries to us at 40/F, Dah Sing Financial Centre, No. 248 Queen’s Road East, Wanchai, Hong Kong.

STAKEHOLDER ENGAGEMENT

Communication with stakeholders is very important to the Group. The Group has identified the key stakeholders, including shareholders, government and regulatory authorities, employees, business partners, the public and the community.

Major stakeholders	Channels of Engagement or Communication	Expectations
Shareholders	<ul style="list-style-type: none">• Annual general meeting and other shareholder meetings• Annual report and interim report• Announcements and circulars• Company’s website• Meeting with investors	<ul style="list-style-type: none">• Return on investment• Information disclosure and transparency• Protection of shareholders’ rights and fair treatment of shareholders
Government and regulatory authorities	<ul style="list-style-type: none">• Policy guidance• Response to public consultation in writing• Meeting	<ul style="list-style-type: none">• Compliance with laws and regulations• Implementation of relevant regulatory policies, such as production safety, environmental protection and social responsibility• Proper tax payment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Major stakeholders	Channels of Engagement or Communication	Expectations
Employees	<ul style="list-style-type: none"> • Regular meetings and training • Performance assessment • Staff newsletters and broadcasts • Labour union 	<ul style="list-style-type: none"> • Salary and welfare • Safe working environment • Fair career development opportunities
Customers	<ul style="list-style-type: none"> • Regular meetings • Site visit • Exhibition • Email 	<ul style="list-style-type: none"> • High quality products and services • Group reputation and brand image
Business partners	<ul style="list-style-type: none"> • Business partner meetings • Site visit • Email • Tendering process • Purchase review 	<ul style="list-style-type: none"> • Long-term partnership • Win-win cooperation • Fair purchase • Timely payment
The public and the community	<ul style="list-style-type: none"> • Site visit • Email • public newsletters and broadcasts 	<ul style="list-style-type: none"> • Volunteering • Community visit • Donation

ENVIRONMENTAL

The Company is subject to environmental laws and regulations in the PRC where our businesses operate.

The Company considers the protection of the environment to be important and fully committed to complying with all applicable requirements under the PRC environmental laws and regulations. The Company confirmed that we are in compliance with the relevant environmental protection laws and regulations during the Reporting Period. If the Company fails to comply with present or future laws and regulations, the Company would be subject to fines, suspension of business or cessation of operations.

Energy Conservation and Emission Reduction

Reducing energy consumption and improving energy efficiency are keys to slowing down global climate change, and therefore the Group strives to improve its energy saving performance on operation.

Wastes Control

As the Group conducts property leasing, there is no significant hazardous waste produced during the ordinary course of business operations. On the other hand, the major non-hazardous waste produced results from the paper consumption for administrative work, which we consider to be minimal as we encourage the employees to go paperless. Therefore, no data regarding hazardous and non-hazardous waste were recorded during the year ended 31 December 2020.

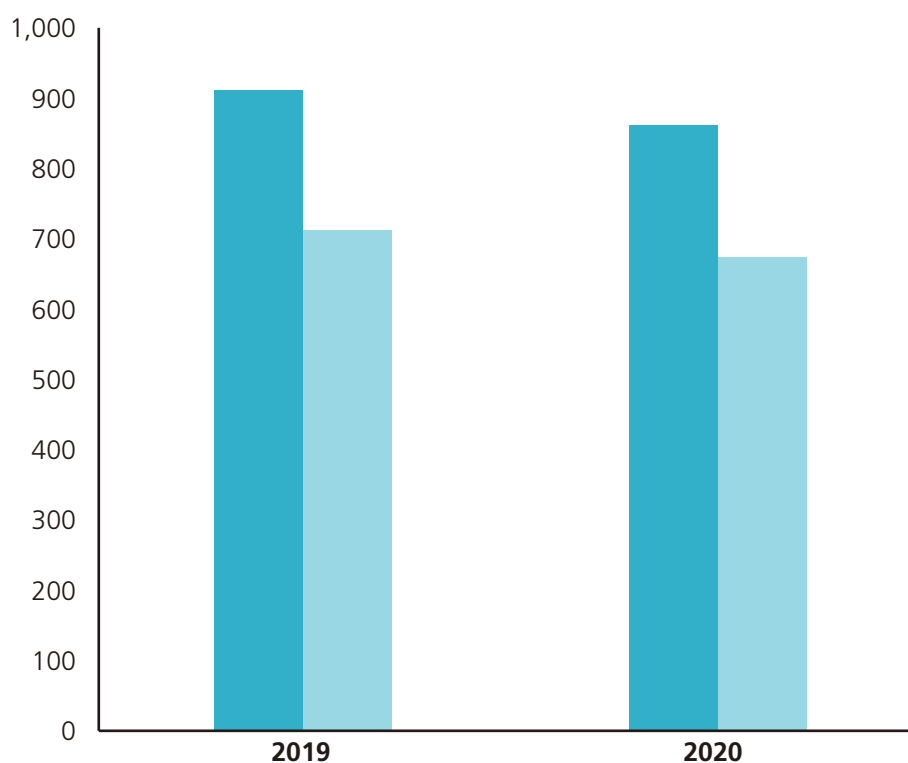
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Power Consumption Control

The main power consumed by the Group is electricity. The Group adheres to the principle of energy conservation and environmental protection to reduce the power consumption. The Group uses of energy-efficient lighting and has formulated a guideline on the use of airconditioners.

The change of total power consumption and carbon emission in 2019 and 2020 were as follows:

Power consumption and corresponding carbon emission



■ Power consumption (kWh in '000s)	1,517.1	1,367.3
■ Carbon emission (tonnes)	1,186.0	1,068.9

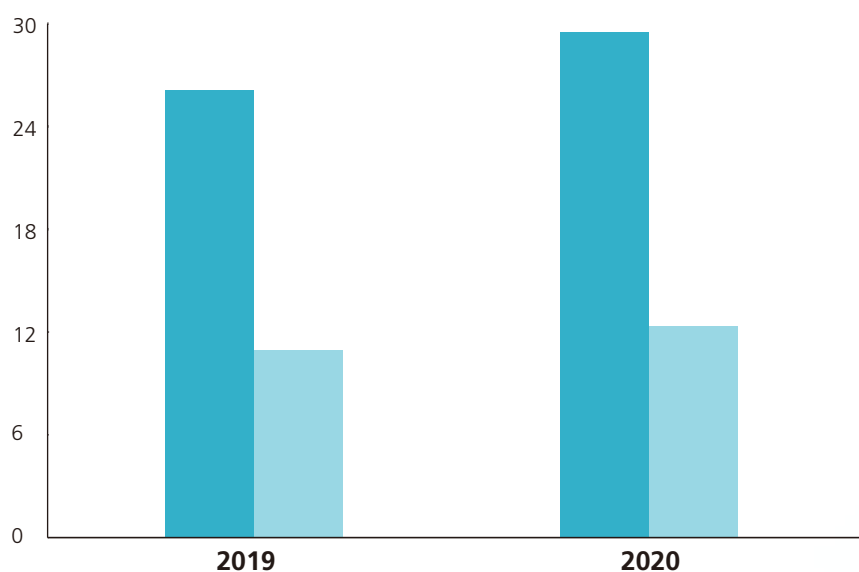
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water Consumption Control

The Group treasures water resources and is committed to controlling water consumption and avoiding wastage, in order to encourage staff to save water, the Group has put up signs in offices to remind employees to reduce water consumption. The Group has no issue in sourcing water that is fit for purpose.

The change of total water consumption and carbon emission in 2019 and 2020 were as follows:

Water consumption and corresponding carbon emission



■ Water consumption (kilotonnes)	26.5	29.0
■ Carbon emission (tonnes)	10.6	11.6

During the year ended 31 December 2020, the total power consumption of the Group was approximately 1,367,300 kWh, and the density was approximately 29.3 kWh/output value of RMB1 million and total water consumption was approximately 28,960 tonnes and the density was approximately 0.6 kg/output value of RMB1 million.

Packaging Materials

Due to the nature of the business of Group, the Group does not produce final products. Therefore, the Group does not consume packaging materials.

The Group will continue to closely monitor the utilisation of resources and conduct regular assessment to seek better ways for contributing to environmental protection.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Economical Use of Resources

The Group strictly complies with the requirements of Energy Conservation Law of the PRC and has formulated rules in relation to fostering awareness of water and electricity conservation among all staff and turning off lights, faucets, air conditioners and computers, etc. when the use of them is unnecessary to reduce the consumption of energy.

The total power consumption decreased by approximately 9.9% from 2019 to 2020, as the result of above energy saving initiatives. The total water consumption increased by approximately 9.4% from 2019 to 2020.

The Environment and Natural Resources

Due to the nature of the business, its daily operation posed no significant adverse impact on the environment.

The Group believes that corporation has responsibility, which is imperative, in promoting the sustainable development of environment. In this connection, the Group formulated environmental principles correspondingly to ensure the effective implementation of various measures. In production and operation activities, increased use of energy-saving facilities and reduced energy consumption to mitigate or avoid the impact of wasted water, exhaust gas, greenhouse gas, noise and hazardous and non-hazardous waste on the environment; encouraged the staffs to raise environment protection awareness and to acquire knowledge and skills related to environment protection. The Group strictly complied with national laws, regulations and policies, such as Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on Prevention and Control of Water Pollution and Hazardous Waste Pollution Prevention Technology Policy. There were no cases of non-compliance in relation to emissions and the environment within the reporting scope during the year ended 31 December 2020. Looking ahead, we will continuously assess its environment risks so as to formulate appropriate response measures and regularly review.

SOCIAL

Employees

The Directors and management team, comprising experienced professionals that possess extensive technical and industry experience, has a proven record of successfully operating and expanding the business. Therefore, the Group ensures the remuneration package of Directors and the management are reasonable and competitive in the market and the Group believes that its long-term growth depends on the expertise, experience and development of our employees. The salaries and benefits of the employees depend primarily on their type of work, position, length of service with us and local market conditions. In order to improve our employees' skills and technical expertise, the Group provides regular training to our employees. Besides these, the Group has formulated detailed regulations in its employee manual with respect to compensation, dismissal, promotion, working hours, vacations and other aspects.

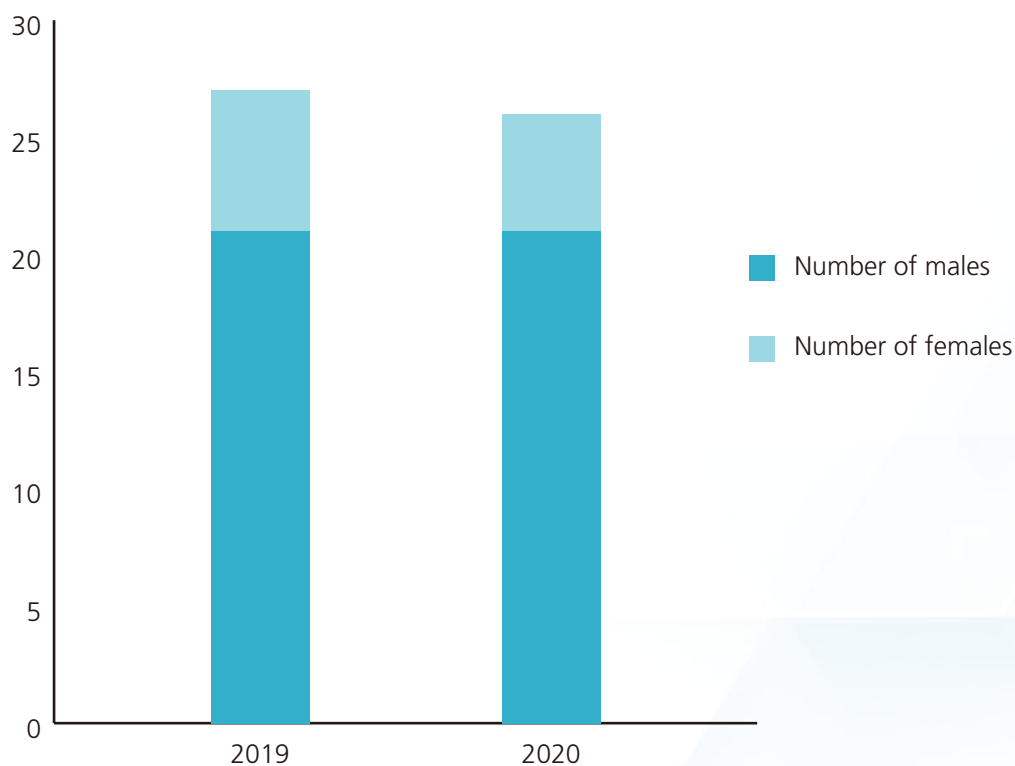
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group mainly recruits employees through recruitment fairs and on-campus recruitment. As at 31 December 2020, we had a total of 27 employees, all of whom were based in the headquarters in the PRC. The following table sets forth the number and breakdown of our full-time employees by function as at 31 December 2020:

Function	Number of employees
Senior management	5
Human resources and internal audit	4
Finance	3
Information management	3
Retail and tenancy management	12
Total	27

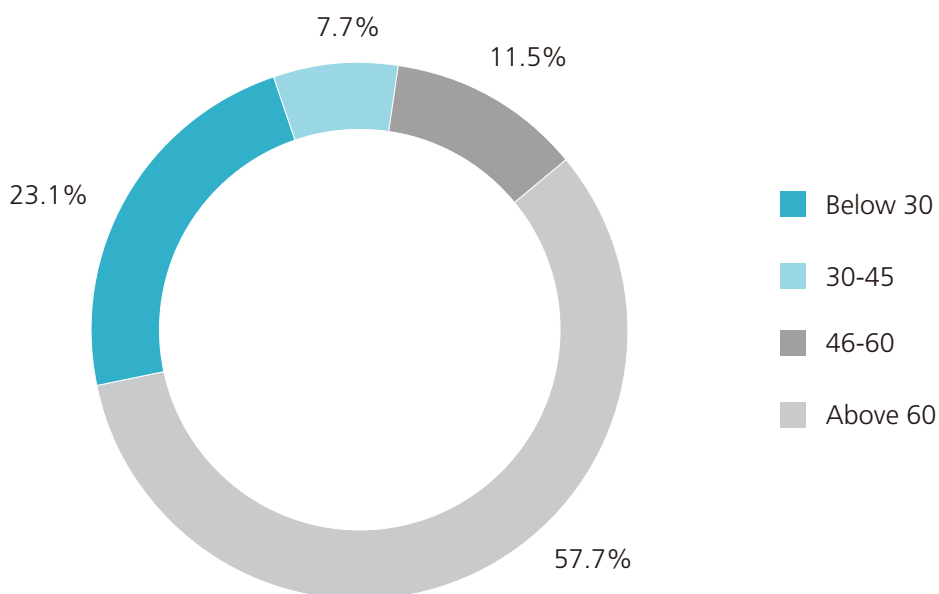
Employment statistics by gender, age and education level

Distribution of employees by gender

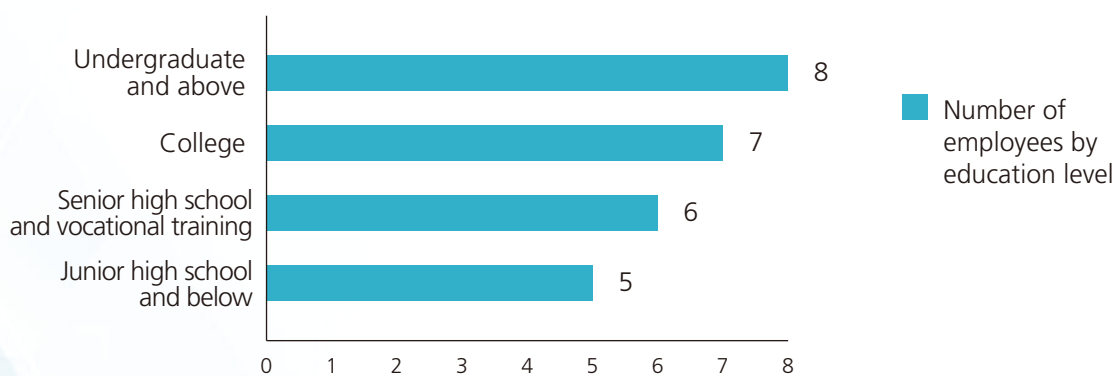


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Distribution of employees by age



Distribution of employees by education level

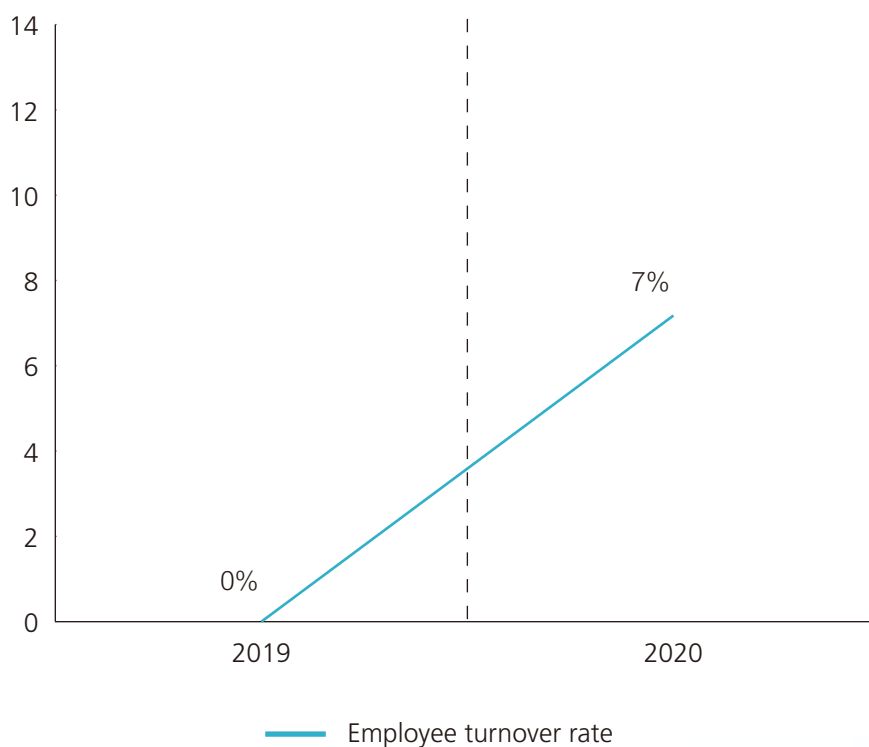


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Benefits

The remuneration of our employees includes basic salary and performance-based monthly and annual bonuses. The Group makes contributions for our employees in relation to the mandatory social security funds, including pension, work-related injury insurance, maternity insurance, medical and unemployment insurance in accordance with applicable laws and regulations of the PRC. During the Reporting Period, the Group failed to make full contributions to the social insurance scheme for some of our employees. The Group also failed to register our housing provident fund account and did not make full contributions to the housing provident fund for some of our employees as required by PRC laws and regulations.

Employee turnover rate



For the year ended 31 December 2020, the employee turnover rate increased to 7.1%, mainly because one employee resigned and one employee retired for the year ended 31 December 2020, while no employee resigned or retired for the year ended 31 December 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OCCUPATIONAL HEALTH AND SAFETY

Safety Management System

The Group is subject to various production safety rules and regulations in the PRC.

Our operations are subject to regulation and monitoring by local work safety authorities. If we fail to comply with present or future laws and regulations, we would be subject to fines, suspension of business or cessation of operations.

We have established work safety policies and procedures to ensure that our operations are in compliance with applicable work safety laws and regulations. Our work safety policies set forth overall principles as well as procedures of internal inspections of work safety-related matters. In order to address potential safety risks and ensure timely and efficient responses to safety incidents, our work safety policies also provide a detailed system of recording and handling accidents, where (i) safety incidents are categorised into three grades, each necessitating a corresponding level of emergency responses; and (ii) in addition to internal real-time and post-accident records and analyses, timely reports would be made to local work safety authorities and any other relevant authorities. We also provide work safety-related training to our employees with a view to arousing their awareness of occupational safety and equipping them with the requisite knowledge and skills to handle emergency situations. During the Reporting Period, we had complied with the applicable work safety-related regulations of the PRC in all material aspects.

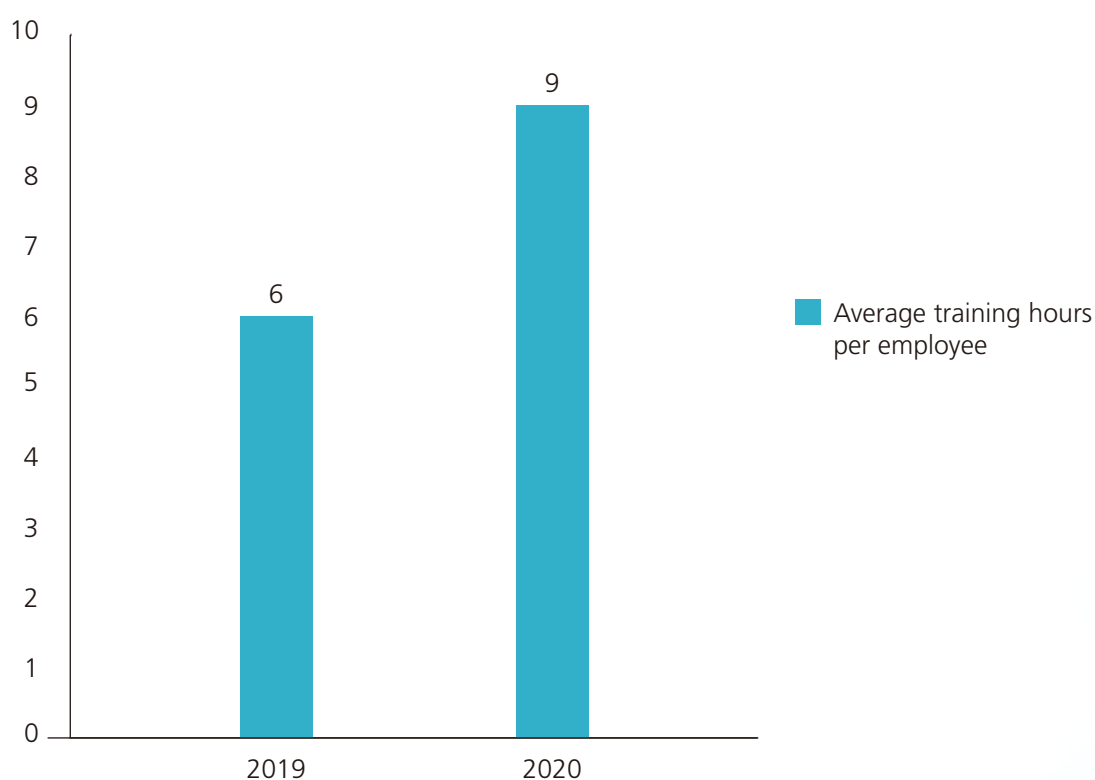
During the year, we did not have any work-related fatalities or injuries and there had not been any claims for personal or property damages or related compensation paid to our employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Training

The Group believes our success depends on our employees' provision of consistent, high-quality and reliable services. In order to attract, retain and develop the knowledge, skill level and quality of our employees, the Group places a strong emphasis on training our employees. Prior to commencement of work, new employees must attend mandatory pre-employment training sessions. In addition, the Group also invited professional trainers from third-party research institutions to provide all employees regular training on professional knowledge, technical skills and production safety.

Average training hours per employee



Fair recruitment and promotion

The Group recruits staff based on a fair, open and impartial principle to ensure the recruitment, selection and promotion process is objective and consistent. The Group only takes into account an individual's competence, regardless of the age (apart from the policy of no recruitment of minors under the age of 16), nationality, race, gender, religion, pregnancy or disability. This process avoids any employment discrimination and offers equal employment and promotion opportunities to all candidates.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employment

The Group stringently complies with all national and local laws, such as the Labor Law, Labor Contract Law and Employment Promotion Law of the People's Republic of China. The Group legally abides by labour laws and regulations. The employment of child labour and forced-labour workers are strictly prohibited.

Labour Standards

Being fully aware that exploitation of child and forced labour violates human rights and international labour conventions, the Group strictly prohibits the employment of any child labour and forced labour in any form. New employees are required to provide true and accurate personal data when they are onboard. During the year ended 31 December 2020, the Group strictly complied with the relevant laws and regulations, in relation to the prevention of child labour or forced labour. No material non-compliance with the laws and regulations has been found by the Group.

RELATIONSHIPS WITH EMPLOYEES AND CUSTOMERS

Believing that sense of belonging is the key for the healthy growth of every commercial organisation, the Group promotes open and direct communication between employees and management. And organise regular group activities, are organised to enhance the harmonious spirit of different levels of staff members throughout the Group. The Group believes that such a corporate culture and harmonic working environment will naturally achieve a synergistic result to facilitate employee retention and to improve productivity.

The Group's customers were our tenants, who are manufacturers, suppliers, distributors as well as wholesalers of measuring and cutting tools. The Group has established stable relationship with the tenants. The tenant whom we have the longest relationship with has leased our properties for over 4 year.

SUPPLY CHAIN MANAGEMENT

Due to the nature of the business, the Group does not have any supplier. However, in order to enhance the competitiveness of the trading centre and provide value added services to the tenants, the Group have engaged a property management service company, an independent third party, to provide ongoing property management service to the tenants. The Responsibility of the property management service provider – providing, among others, security service, cleaning service, water and electricity repair and maintenance service to the tenants.

In order to control the quality and performance of the subcontractors, the selection basis is based on the following criteria: previous experience and past performance, reliability and responsiveness, financial status, any relationship with staff, if applicable, disclosed, fee/price of service/product and credit terms.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

QUALITY CONTROL AND MANAGEMENT

The Group believes that its management team has accumulated the extensive experience in a broad range of functions comprising site management, cost control and quality control as well as efficient execution capability.

Data Protection and Privacy Policies

All employees are prohibited from disclosing any confidential information under the Group's confidentiality policy. Data including project-related information and other sensitive information is subject to access control to ensure its security and prevent any abuse or misuse.

Intellectual Property

As at 31 December 2020, the Group had registered three trademarks in the PRC, one trademark in Hong Kong and two domain names.

Bribery, Corruption and Other Misconduct

The Group's employee handbook regulates the employees' conducts with respect to conflicts of interest, bribery, corruption and other misconduct. The Group provides regular training for our employees to emphasize the importance of employees' conduct and refresh their knowledge on the reporting system on employees' misconduct. An effective whistle blowing policy is (including but not limited to report to department managers, the human resources manager and the senior management) also in place to minimize the risk of fraudulent acts, criminal offences or wrongdoings occurring in the workplace. To the best knowledge of the Directors, during the Reporting Period, there was no non-compliance involving bribery and corruption related laws and regulations.

COMMUNITY INVOLVEMENT/CHARITABLE DONATIONS

The Group is committed to fulfilling its CSR and continues to dedicate its resources to charitable activities. During the 2020, the Group has played a part in winning the battle of prevention and control against the epidemic with practical action by making a donation of approximately RMB93,000 to fulfill its CSR.

* For identification purposes only.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 66 to 120, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Valuation of investment properties

Refer to Note 12 to the consolidated financial statements and the accounting policies on page 75.

The Key Audit Matter

The Group's investment properties are located in Wenling City, Zhejiang Province. The fair value of the Group's investment properties as at 31 December 2020 was RMB1,027.3 million, which represented 90.6% of the Group's total assets as at that date.

The fair value of the Group's investment properties as at 31 December 2020 was assessed by the board of directors based on valuations prepared by an external firm of qualified valuers (the "Valuer"). The valuation gains on investment properties recorded in the consolidated statement of profit or loss and other comprehensive income were RMB3.2 million for the year ended 31 December 2020.

We identified assessing the valuation of investment properties as a key audit matter because of the significance of investment properties to the Group's total assets and because the valuation of investment properties can be inherently subjective and requires the exercise of significant judgement and estimation, in particular in determining the appropriate valuation methodology, capitalisation and discount rates, market rents and adjusted quoted prices in active markets and the estimation of development costs to complete the investment property under development, which increases the risk of error or management bias.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of investment properties included the following:

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of the key internal controls in relation to the valuation of investment properties and the preparation and monitoring of management budgets and forecasts of construction and other costs for the property development project;
- obtaining and inspecting the valuation reports prepared by the Valuer engaged by the Group on which the directors' assessment of the fair values of investment properties was based;
- assessing the qualifications of the Valuer and their experience and expertise in the properties being valued and considering their objectivity;

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Valuation of investment properties

Refer to Note 12 to the consolidated financial statements and the accounting policies on page 75.

The Key Audit Matter

How the matter was addressed in our audit

- with the assistance of our internal property valuation specialists, discussing with management and the Valuer and assessing the valuation methodology and challenging the key estimates and assumptions adopted in the valuations, including the capitalisation and discount rates, market rents, adjusted quoted market prices, on a sample basis, by comparing assumptions made in prior years with the current year's assumptions and publicly available data;
- for completed investment property, comparing tenancy information, including committed rents provided by the Group to the Valuer, on a sample basis, with underlying contracts and documentation relating to details of the number of property units held for investment purposes, to assess the accuracy of the inputs to the valuation model; and
- for investment property under development, conducting site visit to observe the development progress, reviewing the third party's construction progress report and evaluating management's development budgets reflected in the latest forecasts with reference to market statistics about estimated construction costs and signed construction contracts.

INDEPENDENT AUDITOR'S REPORT

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Kim Tak.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Note</i>	2020 RMB'000	2019 RMB'000
Revenue	5	46,743	50,150
Cost of sales		(9,118)	(9,263)
Gross profit		37,625	40,887
Valuation gains on investment properties	12	3,207	10,787
Other net income	6	4,883	616
Selling and marketing expenses		(113)	(139)
Administrative expenses		(8,158)	(7,224)
Profit from operations		37,444	44,927
Finance costs	7(a)	-	(1,653)
Profit before taxation	7	37,444	43,274
Income tax	8	(9,363)	(10,827)
Profit for the year		28,081	32,447
Other comprehensive income for the year		-	-
Total comprehensive income for the year		28,081	32,447
Earnings per share	11		
Basic and diluted (RMB)		0.47	0.54

The notes on pages 71 to 120 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 24(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2020

	<i>Note</i>	2020 RMB'000	2019 RMB'000
Non-current assets			
Investment properties	12	1,027,340	937,000
Property, plant and equipment	13	7,483	8,597
Lease prepayments	14	581	604
Intangible assets	15	72	178
Other non-current assets	16	3,674	10,306
		1,039,150	956,685
Current assets			
Other receivables and prepayments	18	7,344	23,893
Restricted cash		2,624	–
Cash and cash equivalents	19	85,389	35,371
		95,357	59,264
Current liabilities			
Short-term loans	20	40,462	57,020
Other payables and accruals	21	26,292	17,122
Receipts-in-advance, current	22	53,114	46,254
Current taxation	23(a)	10,158	6,308
		130,026	126,704
Net current liabilities		(34,669)	(67,440)
Total assets less current liabilities		1,004,481	889,245

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2020

	<i>Note</i>	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Long-term loan	20	40,000	–
Receipts-in-advance, non-current	22	78,349	83,482
Deferred tax liabilities	23(b)	171,429	168,199
		289,778	251,681
NET ASSETS			
		714,703	637,564
CAPITAL AND RESERVES			
Share capital	24(c)	80,000	60,000
Reserves	24(d)	634,703	577,564
TOTAL EQUITY			
		714,703	637,564

Approved and authorised for issue by the Board of Directors on 24 March 2021.

Pan Haihong
Director

Zhou Guilin
Director

The notes on pages 71 to 120 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Note	Share capital RMB'000	Capital reserve RMB'000	PRC statutory Reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2019		60,000	35,507	2,014	507,596	605,117
Profit for the year		-	-	-	32,447	32,447
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	32,447	32,447
Appropriation for PRC statutory reserve	24(d)(ii)	-	-	1,875	(1,875)	-
Balance at 31 December 2019 and 1 January 2020		60,000	35,507	3,889	538,168	637,564
Profit for the year		-	-	-	28,081	28,081
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income		-	-	-	28,081	28,081
Issue of ordinary shares upon initial public offering, net of issuing costs	24(c)	20,000	32,058	-	-	52,058
Appropriation for PRC statutory reserve	24(d)(ii)	-	-	1,839	(1,839)	-
Dividends declared in respect of the previous year	24(b)	-	-	-	(3,000)	(3,000)
Balance at 31 December 2020		80,000	67,565	5,728	561,410	714,703

The notes on pages 71 to 120 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
Operating activities:			
Cash generated from operations	19(b)	33,221	32,873
PRC Corporate Income Tax ("CIT") paid	23(a)	(2,283)	(3,509)
Net cash generated from operating activities		30,938	29,364
Investing activities:			
Payment for the purchase of property, plant and equipment		(20)	(1,223)
Payment for performance bond deposit		-	(6,350)
Receipt of performance bond deposit		6,350	-
Payment for the purchase of investment properties		(76,420)	(64,908)
Placement of restricted cash for the purchase of investment properties		(12,000)	-
Release of restricted cash for the purchase of investment properties		9,376	-
Interest received		66	113
Placement of bank deposits with maturity over three months		-	(10,000)
Withdrawal of bank deposits with maturity over three months		-	10,000
Net cash used in investing activities		(72,648)	(72,368)
Financing activities:			
Proceeds from borrowings	19(c)	180,462	97,020
Repayment of bank loans	19(c)	(157,020)	(40,000)
Payment of loan interests	19(c)	(5,633)	(860)
Payment of dividends		(3,000)	-
Payment of restricted cash for obtaining a borrowing		-	(30,000)
Withdrawal of restricted cash upon repayment of a borrowing		-	30,000
Proceeds from initial public offering less underwriting commission fee		89,441	-
Payment of listing expenses		(12,522)	(6,075)
Net cash generated from financing activities		91,728	50,085
Net increase in cash and cash equivalents		50,018	7,081
Cash and cash equivalents at the beginning of the year		35,371	28,290
Cash and cash equivalents at the end of the year	19(a)	85,389	35,371

The notes on pages 71 to 120 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

1 GENERAL INFORMATION

The Company was formerly named as Wenling City Wenxi Measuring and Cutting Tools Trading Centre Company Limited. (溫嶺市溫西工量刀具交易中心有限公司, the “**Company**”), which was established as a limited liability company incorporated in Wenling City, Zhejiang Province in the People’s Republic of China (the “**PRC**”) on 14 May 2003. The principal activity of the Company and its subsidiaries (together, the “**Group**”) is property leasing.

On 3 May 2018, the Company was converted into a joint stock limited liability company with a registered capital of RMB60,000,000 in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited. Upon completion of this conversion, the Company changed its name to Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited (溫嶺浙江工量刀具交易中心股份有限公司).

On 30 December 2020, the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited and issued 20,000,000 new ordinary shares.

2 SIGNIFICANT ACCOUNTING POLICES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries (together referred to as the “**Group**”).

The measurement basis used in the preparation of the financial statements is the historical cost basis except for investment properties (see Note 2(e)) which are stated at its fair value.

The consolidated financial statements have been prepared assuming the Group will continue as a going concern notwithstanding the fact that the Group had net current liabilities of RMB34,669,000 as at 31 December 2020. As at 31 December 2020, the Group had banking facilities of RMB433,000,000 from third-party banks, of which the unutilized amount was RMB351,000,000. The drawdown of the credit facilities is subject to the terms and conditions of each agreement. The directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the twelve-month period from 1 January 2021 to 31 December 2021, the Group will take necessary measures, including drawdown of additional loans from the presently available banking facilities, to ensure the Group will have necessary liquid funds to repay its debts as and when they fall due, and to finance its working capital and capital expenditure requirements.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKFRS 3, Definition of a Business

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The adoption of the amendments has no significant impact on the consolidated financial statements.

Amendment to HKFRS 16, Covid-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“**COVID-19-related rent concessions**”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The adoption of the amendments has no significant impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the financial information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(i)(ii)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment properties.

Investment properties are stated at fair value.

Leasehold land held for development into investment property, representing leasehold land located in the PRC for development into investment properties, is stated initially at cost and subsequently revalued as at the end of each reporting period.

Construction costs incurred for investment properties under development and leasehold land held for development into investment properties are capitalized as part of the carrying amount of the investment properties under development.

Any gain or loss arising from a change in fair value or from the retirement or disposal of investment properties is recognised in profit or loss. Rental income from investment properties is accounted for as described in Note 2(r)(i).

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(s)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- Electronic equipment 3–10 years
- Motor vehicles 4 years
- Machinery and equipment 10 years
- Office equipment 3–5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Lease

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

A lease is recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use asset are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Right-of-use assets that meet the definition of investment properties, are carried at fair value in accordance with Note 2(e).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICES (Continued)

(g) Lease (Continued)

(i) As a lessee (Continued)

Except for the leasehold land as further described below and the short-term leases that have a lease term of 12 months or less, the Group does not have any other lease arrangement as a lessee during the year.

The consideration paid to lease the state-owned or collectively-owned land in the PRC are treated as prepayment for land use rights and included in lease prepayments, which are stated at cost less accumulated amortisation and impairment loss, except for the land use rights that meet the definition of investment properties which are measured at fair value as described in Note 2(e). Land use rights measured at cost are amortised over the lease period using straight-line method.

The following land use rights with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Lease prepayment 37–50 years

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(r)(i).

(h) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(i)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Software 5 years

Both the period and method of amortisation are reviewed annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade receivables, other receivables and prepayments).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade receivables, other receivables and prepayments: effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(r)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- Property, plant and equipment;
- Lease prepayment;
- Intangible assets; and
- Interests in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or Group of units) and then, to reduce the carrying amount of the other assets in the unit (or Group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, if measurable, or value in use, if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(i)(i)).

(k) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(s)).

(l) Other payables and accruals

Other payables and accruals are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) Restricted cash

Restricted cash represents amounts held by banks, which are not available for the Company's use, as security for certain special capital expenditures.

(o) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax

Income tax for each reporting period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for each reporting period, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 2(e), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either; or
- the same taxable entity; or
- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Revenue recognition

Income is classified by the Group as revenue when it arises from the use by others of the Group's assets under leases in the ordinary course of the Group's business.

The Group derives substantially all of its revenue from rental income from operating leases. The Group also derives a small portion of its revenue from the provision of property management services. Revenue is recognised when the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. Further details of the Group's revenue and other income recognition policies are as follow:

(i) Rental income from operating leases

Rental income is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(ii) Property management service fee

The Group recognise revenue from the provision of property management services under HKFRS 15, Revenue from contracts with customers.

The Group recognised revenue when the performance obligation is satisfied, i.e. when "control" of the service underlying the particular performance obligation is transferred to the customer.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation as the customer simultaneously receives the benefits provided by the Group's performance as the Group performs. Revenue from property management service is recognised over time as the Group performs the related service to the customer.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Group's accounting policies, which are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following critical accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements. Note 25 contain information about the assumption and their risk factors relating to financial instruments. Other key source of estimation uncertainty is as follows:

(a) Valuation of investment properties

Investment properties are included in the consolidated statement of financial position at their market value, unless they are still in the course of construction or development at the end of each reporting period and their fair value cannot be reliably determined at that time. The market value of investment properties is assessed at each interim and annual reporting period by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential and redevelopment potential of the properties.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of each reporting period, with reference to the appropriate capitalisation rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

4 SEGMENT REPORTING

The directors of the Company have been identified as the Group's most senior executive management. Operating segments are identified on the basis of internal reports that the Group's most senior executive management reviews regularly in allocating resources to segments and in assessing their performances.

The Group's most senior executive management makes resources allocation decisions based on internal management functions and assess the Group's business performance as one integrated business instead of by separate business lines or geographical regions. Accordingly, the Group has only one operating segment and therefore, no segment information is presented.

The Group operates in Mainland China and accordingly, no geographical information is presented.

5 REVENUE

The amount of each significant category of revenue is as follows:

	Notes	2020 RMB'000	2019 RMB'000
Property leasing	(i)	43,827	46,925
Others	(ii)	2,916	3,225
Total		46,743	50,150

- (i) The Group's revenue recognition policies are disclosed in Note 2(r). During the year, the Group's revenue mainly consists of revenue from property leasing and provision of property management services. Rental refunds are recognised in the profit and loss when the Group has an obligation for the refunds.

Due to the outbreak of COVID-19 epidemic in China, the trading centre of the Group was closed from 30 January 2020 to 21 February 2020. As required by government regulations, the Company provided a one-off rental refund of approximately RMB4.5 million to its tenants in the fourth quarter of 2020.

- (ii) Others mainly represent revenue for provision of property management services and is recognised over time in accordance with HKFRS 15, Revenue from Contracts with Customers.

The Group's customer base is diversified and no single customer with whom transactions have exceeded 10% of the Group's revenues during the year.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its provision of property management services such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for provision of property management services that have an original expected duration of one year or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

6 OTHER NET INCOME

	<i>Note</i>	2020 RMB'000	2019 RMB'000
Interest income from bank deposits		66	113
Government grants	(i)	4,817	500
Others		–	3
Total		4,883	616

(i) In December 2020, the local government provided government subsidies of approximately RMB4.4 million to the Group to partially compensate the rental refund the Group provided to its tenants.

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2020 RMB'000	2019 RMB'000
Interest expenses	4,120	3,696
Less: Interest expenses capitalised into an investment property under development	(4,120)	(2,043)
	–	1,653

The borrowing costs have been capitalised at a rate of 5.6% per annum during the year ended 31 December 2020 (2019: 5.3%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

7 PROFIT BEFORE TAXATION (Continued)

(b) Staff costs

	2020 RMB'000	2019 RMB'000
Salaries, wages and other benefits	1,864	1,829
Contributions to PRC local retirement schemes	249	413
	2,113	2,242
Included in:		
Cost of sales	899	1,157
Administrative expenses	1,214	1,085
	2,113	2,242

Employees of the Group are required to participate in a defined contribution scheme administered and operated by the local municipal government. The Group contributes funds which are calculated on certain percentages of the employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with these schemes beyond the annual contributions as described above.

(c) Other items

	2020 RMB'000	2019 RMB'000
Depreciation and amortisation	1,263	1,296
Auditor's remuneration	950	200

During the year ended 31 December 2020, lease cost arising from short-term leases that have lease term of 12 months or less amounted to RMB340,000 (2019: RMB nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	<i>Note</i>	2020 RMB'000	2019 RMB'000
Current tax			
PRC CIT	23	6,133	6,258
Deferred tax			
Origination and reversal of temporary differences	23	3,230	4,569
		9,363	10,827

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	<i>Note</i>	2020 RMB'000	2019 RMB'000
Profit before taxation		37,444	43,274
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	(i)	9,361	10,819
Tax effect of non-deductible expenses		2	8
Actual tax expense		9,363	10,827

(i) The Company and its subsidiaries in the PRC are subject to PRC statutory income tax at 25%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

9 DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2020	Directors' Fees (i) RMB'000	Salaries, allowances and benefits in kind (ii) RMB'000	Discretionary Bonuses (iii) RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
Executive Directors					
Pan Haihong	-	15	-	-	15
Zhou Guilin	-	85	-	-	85
Non-executive Directors					
Huang Qun	-	-	-	-	-
Wang Wenming	-	-	-	-	-
Cheng Jinyun	-	-	-	-	-
Ye Yunzhi	-	-	-	-	-
Independent Non-executive Directors					
Xu Wei	-	-	-	-	-
Jin Hongqing	-	-	-	-	-
Tsoi Ka Shing	-	-	-	-	-
	-	100	-	-	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

9 DIRECTORS' REMUNERATION (Continued)

Year ended	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Contributions to retirement benefit scheme	Total
31 December 2019	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Pan Haihong	–	28	–	–	28
Zhou Guilin	–	100	–	–	100
Non-executive Directors					
Huang Qun	–	–	–	–	–
Wang Wenming	–	–	–	–	–
Cheng Jinyun	–	–	–	–	–
Ye Yunzhi	–	–	–	–	–
Independent Non-executive Directors					
Xu Wei	–	–	–	–	–
Jin Hongqing	–	–	–	–	–
Tsoi Ka Shing	–	–	–	–	–
	–	128	–	–	128

(i) During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals set out in Note 10 below as an inducement to join or upon joining the Group or as compensation for loss of office. No directors have waived or agreed to waive any emoluments during the year. No remuneration was paid to non-executive directors or independent non-executive directors during the year.

(ii) Pan Haihong joined and acted as general manager of the Company since 20 August 2015. Zhou Guilin joined and acted as deputy general manager of the Company since 8 October 2009. Their emoluments for acting in the above capacities which were included in staff costs as disclosed in Note 7(b) are also included in the table above.

On 3 May 2018, Mr. Pan Haihong and Mr. Zhou Guilin were appointed as executive directors of the Company. Mr. Huang Qun, Mr. Wang Wenming, Mr. Cheng Jinyun and Mr. Ye Yunzhi were appointed as non-executive directors of the Company. On 1 August 2018, Mr. Xu Wei, Mr. Jin Hongqing and Mr. Tsoi Ka Shing were appointed as independent non-executive directors of the Company.

(iii) Discretionary bonus is determined by reference to the performance of individuals and the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none (2019: one) is a director of the Company whose remuneration is disclosed in Note 9. The aggregate of the emoluments in respect of the five (2019: four) individuals are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowance and benefits in kind	439	309
Discretionary bonuses	–	–
Retirement scheme contributions	20	72
	459	381

The emoluments of the five (2019: four) individuals with the highest emoluments are within the following bands:

	2020 Number of Individuals	2019 Number of individuals
Nil – HK\$1,000,000	5	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year of RMB28,081,000 (2019: RMB32,447,000) and the weighted average of 60,109,589 ordinary shares in issue (2019: 60,000,000 shares) during the year, calculated as follows:

Weighted average number of ordinary shares

	2020	2019
Issued ordinary shares at 1 January	60,000,000	60,000,000
Effect of shares issued in the Company's initial public offerings ("IPO") (Note 24)	109,589	–
Weighted average number of ordinary shares at 31 December	60,109,589	60,000,000

The Company did not have any potential ordinary shares outstanding during the year. Diluted earnings per share is equal to basic earnings per share.

12 INVESTMENT PROPERTIES

	Completed investment property RMB'000	Investment property under development RMB'000	Total RMB'000
At 1 January 2019	840,000	–	840,000
Additions	1,743	84,470	86,213
Fair value adjustments	10,257	530	10,787
At 31 December 2019 and 1 January 2020	852,000	85,000	937,000
Additions	957	86,176	87,133
Fair value adjustments	(1,957)	5,164	3,207
At 31 December 2020	851,000	176,340	1,027,340

Fair value adjustments of investment properties are recognised in the line item "Valuation gains on investment properties" on the face of the consolidated statement of profit or loss and other comprehensive income.

The Group pledged a completed investment property with a carrying value of RMB851,000,000 (2019: RMB852,000,000) as at 31 December 2020 for two banking facilities amounting to RMB233,000,000 and RMB100,000,000 from two banks, respectively. In addition, the Group pledged an investment property under development with a carrying value of RMB176,340,000 as at 31 December 2020 for a banking facility amounting to RMB100,000,000 from a bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

12 INVESTMENT PROPERTIES (Continued)

(a) Fair value measurement of investment properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2020 RMB'000	Fair value measurements as at 31 December 2020 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Investment Properties:				
– Completed – Mainland China	851,000	–	–	851,000
– Under development – Mainland China	176,340	–	–	176,340
	1,027,340	–	–	1,027,340

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

12 INVESTMENT PROPERTIES (Continued)

(a) Fair value measurement of investment properties (Continued)

(i) Fair value hierarchy (Continued)

	Fair value at 31 December 2019 RMB'000	Fair value measurements as at 31 December 2019 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Investment Properties:				
- Completed - Mainland China	852,000	-	-	852,000
- Under development - Mainland China	85,000	-	-	85,000
	937,000	-	-	937,000

During the years ended 31 December 2019 and 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of each reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 December 2020. The valuations were carried out by an independent firm of valuers in Hong Kong, Colliers International, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's directors and the financial manager have discussion with the valuers on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

12 INVESTMENT PROPERTIES (Continued)

(a) Fair value measurement of investment properties (Continued)

(ii) Information about Level 3 fair value measurements:

2019

	Valuation technique	Unobservable input	Range	Relationship of unobservable inputs to fair values
Completed investment property	Income Capitalisation Method	Capitalisation rate and discount factor	6.00% to 7.00%	The higher the rates, the lower the fair value
Investment property under development	Market Approach	Accommodation value of the land per square meter	RMB714 to RMB784	The higher the accommodation value, the higher the fair value

2020

	Valuation technique	Unobservable input	Range	Relationship of unobservable inputs to fair values
Completed investment property	Income Capitalisation Method	Capitalisation rate and discount factor	6.00% to 7.00%	The higher the rates, the lower the fair value
Investment property under development	Market Approach	Adjusted market price per square meter	RMB3,211 to RMB4,587	The higher the adjusted market price, the higher the fair value
		Budgeted cost per square meter	RMB1,816	The higher the budgeted cost, the lower the fair value
		Anticipated developer's profit margin	5%-20%	The higher the anticipated developer's profit, the lower the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

12 INVESTMENT PROPERTIES (Continued)

(a) Fair value measurement of investment properties (Continued)

(ii) Information about Level 3 fair value measurements: (Continued)

The Group has two investment properties that are both located in Mainland China.

One investment property is completed, which is partially owner-occupied and partially subjected to existing tenancies as at the date of valuation. In this connection, for the property interests in vacant possession, the fair value has been determined assuming vacant possession could be immediately available as at the date of valuation. For the tenanted property interests, the fair value has been determined on the basis of capitalisation of the net income derived from the existing tenancies with due allowance for reversionary income potential of the respective properties and where appropriate, also made reference to the comparable market transactions.

The other investment property is under development, which consists of a leasehold land acquired in January 2019 and the construction costs occurred. The valuation of the investment property under development is carried at fair value by making reference to comparable sale transactions as available in the relevant markets and estimated costs to completion based on construction budget, committed contracts, allowances for contingencies as well as developer's profit margin, which reflect the risks in relation to the completion of the construction and marketability of proposed development, and in achieving the anticipated income or capital appreciation on the date of valuation.

(b) Investment properties leased out under operating leases

The Group leases out investment property. The leases typically run for an initial period of 1 to 20 years.

All properties held under operating leases that would otherwise meet the definition of investment properties are classified as investment properties.

The Group does not have any material lease receivables under non-cancellable operating leases as at 31 December 2020 (2019: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Machinery and equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2019	8,123	1,352	555	399	240	1,359	12,028
Additions	-	-	-	-	-	1,223	1,223
Transfer to buildings	2,582	-	-	-	-	(2,582)	-
At 31 December 2019 and 1 January 2020	10,705	1,352	555	399	240	-	13,251
Additions	-	20	-	-	-	-	20
At 31 December 2020	10,705	1,372	555	399	240	-	13,271
Accumulated depreciation:							
At 1 January 2019	(2,217)	(676)	(211)	(310)	(73)	-	(3,487)
Charge for the year	(714)	(230)	(132)	(38)	(53)	-	(1,167)
At 31 December 2019 and 1 January 2020	(2,931)	(906)	(343)	(348)	(126)	-	(4,654)
Charge for the year	(720)	(230)	(132)	(5)	(47)	-	(1,134)
At 31 December 2020	(3,651)	(1,136)	(475)	(353)	(173)	-	(5,788)
Net book value:							
At 31 December 2020	7,054	236	80	46	67	-	7,483
At 31 December 2019	7,774	446	212	51	114	-	8,597

All of the Group's buildings are located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

14 LEASE PREPAYMENTS

	Lease prepayments RMB'000
Cost:	
At 1 January 2019, 31 December 2019 and 31 December 2020	798
Accumulated amortisation:	
At 1 January 2019	(171)
Charge for the year	(23)
At 31 December 2019 and 1 January 2020	(194)
Charge for the year	(23)
At 31 December 2020	(217)
Net book value:	
At 31 December 2020	581
At 31 December 2019	604

The lease prepayments represent the right-of-use assets in respect of leases under HKFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

15 INTANGIBLE ASSETS

	Software RMB'000
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Cost:	
At 1 January 2019, 31 December 2019 and 31 December 2020	532
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Accumulated amortisation:	
At 1 January 2019	(248)
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Charge for the year	(106)
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At 31 December 2019 and 1 January 2020	(354)
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Charge for the year	(106)
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At 31 December 2020	(460)
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Net book value:	
At 31 December 2020	72
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At 31 December 2019	178
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

16 OTHER NON-CURRENT ASSETS

	2020 RMB'000	2019 RMB'000
Prepaid business tax	3,674	3,956
Performance bond deposit	–	6,350
	3,674	10,306

Business tax was prepaid by the Company in respect of property leasing fees prepaid by tenants, which would be charged to profit or loss when the related prepaid leasing fees are recognised as revenue.

	2020 RMB'000	2019 RMB'000
At the beginning of the year	4,238	4,520
Amortisation for the year	(282)	(282)
At the end of the year	3,956	4,238

Reconciliation to the consolidated statement of financial position of the prepaid business tax:

	2020 RMB'000	2019 RMB'000
Other receivables and prepayments (<i>Note 18</i>)	282	282
Other non-current assets	3,674	3,956
	3,956	4,238

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

17 INTERESTS IN SUBSIDIARIES

The particulars of the Group's subsidiaries are as follows.

Name of company	Date and place of incorporation	Issued and paid up capital	Proportion of ownership interest		Principal activity
			Group's effective interest	Held by the Company	
Wenling Measuring and Cutting Tools Network Co., Ltd. (" Wenling Measuring and Cutting Tools Network ") (i) (温岭工量刀具网有限公司)	27 July 2011 Wenling, the PRC	RMB100,000	100%	100%	E-commerce technology development services
Wenling Sunrise Real Estate Development Co., Ltd. (" Wenling Xuri ") (i) (温岭市旭日投资有限公司)	12 June 2018 Wenling, the PRC	RMB10,000,000	100%	100%	Investment, real estate development and management, conference and exhibition and related services

(i) Limited liability company established under the PRC law

18 OTHER RECEIVABLES AND PREPAYMENTS

	2020 RMB'000	2019 RMB'000
Prepayments for listing expenses	–	23,152
Value-added tax recoverable	7,025	302
Prepaid business tax	282	282
Others	37	157
	7,344	23,893

Prepayments for listing expenses were charged against equity upon the completion of the Company's IPO on the Main Board of The Stock Exchange of Hong Kong Limited on 30 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

19 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2020 RMB'000	2019 RMB'000
Cash in hand	17	62
Cash at banks	85,372	35,309
	85,389	35,371

(b) Reconciliation of profit before taxation to cash generate from operations

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
Operating activities			
Profit before taxation		37,444	43,274
Adjustments for:			
Valuation gains on investment properties	12	(3,207)	(10,787)
Depreciation and amortisation	7(c)	1,263	1,296
Finance costs	7(a)	-	1,653
Interest income	6	(66)	(113)
Changes in working capital:			
Increase in other receivables and prepayments		(6,603)	(142)
Decrease in other non-current assets		282	282
Increase in other payables and accruals		2,381	2,431
Increase/(decrease) in receipts-in-advance		1,727	(5,021)
Cash generated from operations		33,221	32,873

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

19 CASH AND CASH EQUIVALENTS (Continued)

(c) Reconciliation of liabilities arising from financing activities

	Bank loans and interests RMB'000
Balance at 1 January 2019	–
Other change	
– Finance costs (Note 7(a))	3,696
Cash flow	
– Inflow from financing activities	97,020
– Outflow from financing activities	(40,860)
Balance at 31 December 2019 and 1 January 2020	59,856
Other changes	
– Finance costs (Note 7(a))	4,120
Cash flows	
– Inflow from financing activities	180,462
– Outflow from financing activities	(162,653)
Balance at 31 December 2020	81,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

20 BANK LOANS

As at 31 December 2020, the bank loans were repayable as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	40,462	57,020
After 1 year but within 2 years	40,000	–
Total non-current bank loans	40,000	–
	80,462	57,020

As at 31 December 2020, the bank loans were secured as follows:

	2020 RMB'000	2019 RMB'000
Bank loans		
– secured	80,462	57,020

- (i) In November 2018, the Company obtained a banking facility of RMB233,000,000 valid from 28 November 2018 to 28 November 2023 from a third-party bank, which was pledged by a completed investment property with a carrying value of RMB851,000,000 as of 31 December 2020. The drawdown of the credit facility is subject to the terms and conditions of the agreement. As of 31 December 2020, the Group had an outstanding loan of RMB28,462,000 under this banking facility with an effective interest rate of 5.4% per annum. The loan principal and related interest in the aggregate amount of RMB30,000,000 are due for repayment on 9 March 2021.

In January 2019, the Company obtained a banking facility of RMB100,000,000 valid from 3 January 2019 to 1 January 2024 from a third-party bank, which was secondarily pledged by the same investment property as described in Note 20(i) above. The drawdown of the credit facility is subject to the terms and conditions of the agreement. As of 31 December 2020, the Group had an outstanding loan of RMB40,000,000 under this banking facility with an effective interest rate of 5.5% per annum. The loan is due for repayment on 1 June 2022.

- (ii) In August 2020, the Group obtained a banking facility of RMB100,000,000 valid from 17 August 2020 to 28 December 2021 from a third-party bank, which was pledged by an investment property under development with a carrying value of RMB176,340,000 as of 31 December 2020 and was guaranteed by the Company. The drawdown of the credit facility is subject to the terms and conditions of the agreement. As of 31 December 2020, the Group had an outstanding loan of RMB12,000,000 under this banking facility with an effective interest rate of 4.3% per annum. The loan is specially for the constructions of the investment property under development and due for repayment on 10 November 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

21 OTHER PAYABLES AND ACCRUALS

	2020 RMB'000	2019 RMB'000
Payable for purchase of property, plant and equipment and investment properties	12,855	6,262
Accrued payroll	259	232
Other taxes payable	3,291	3,073
Accrued interests	1,323	2,836
Deposits	840	646
Payable for listing expenses	3,166	1,727
Payable for professional fees	1,870	170
Payable for property management fees and utilities	407	173
Others	2,281	2,003
	26,292	17,122

All of the other payables and accruals are normally settled within one year or are repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

22 RECEIPTS-IN-ADVANCE

Receipts-in-advance mainly represents property leasing fees prepaid by tenants. The receipts-in-advance that are expected to be recorded as revenue within one year of the balance sheet date are recorded as current, and receipts-in-advance that are expected to be recorded as revenue beyond one year of the balance sheet are recorded as non-current.

	2020 RMB'000	2019 RMB'000
At the beginning of the year	129,736	134,757
Carry-over to revenue for the year	(50,907)	(49,178)
Receipts during the year	52,634	44,157
At the end of the year	131,463	129,736

Reconciliation to the consolidated statement of financial position:

	2020 RMB'000	2019 RMB'000
Receipts-in-advance, current	53,114	46,254
Receipts-in-advance, non-current	78,349	83,482
	131,463	129,736

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	6,308	3,559
Provision for current income tax for the year (Note 8(a))	6,133	6,258
Payments during the year	(2,283)	(3,509)
At the end of the year	10,158	6,308

(b) Deferred tax assets and liabilities recognised

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from	Note	Provision for depreciation and amortisation RMB'000	Revaluation of investment properties RMB'000	Interest capitalisation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019		11,550	152,080	-	-	163,630
Charged/(credited) to profit or loss	8(a)	1,537	2,697	511	(176)	4,569
At 31 December 2019 and 1 January 2020		13,087	154,777	511	(176)	168,199
Charged/(credited) to profit or loss	8(a)	1,489	802	1,030	(91)	3,230
At 31 December 2020		14,576	155,579	1,541	(267)	171,429

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below.

The Company

	Notes	Share capital RMB'000	Capital reserve RMB'000	PRC statutory reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 31 December 2018 and 1 January 2019		60,000	35,507	1,993	507,461	604,961
Profit for the year		-	-	-	30,720	30,720
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	30,720	30,720
Appropriation for PRC statutory reserve	24(d)(ii)	-	-	1,875	(1,875)	-
Balance at 31 December 2019 and 1 January 2020		60,000	35,507	3,868	536,306	635,681
Profit for the year		-	-	-	21,393	21,393
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	21,393	21,393
Issue of ordinary shares upon initial public offering, net of issuing costs	24(c)	20,000	32,058	-	-	52,058
Appropriation for PRC statutory reserve	24(d)(ii)	-	-	1,839	(1,839)	-
Profit distribution in respect of the previous year	24(b)	-	-	-	(3,000)	(3,000)
Balance at 31 December 2020		80,000	67,565	5,707	552,860	706,132

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

24 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year.

	2020 RMB'000	2019 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year	3,000	–
	3,000	–

Dividends of RMB3,000,000 were declared and approved by the Company in respect of the year ended 31 December 2019 to the equity shareholders of the Company. The payments of the dividends are disclosed in Note 19(c).

The directors consider that the dividends declared and approved during the year are not indicative of the future dividend policy of the Group.

(c) Share capital

Ordinary shares, issued and fully paid:

	2020 RMB'000	2019 RMB'000
At 1 January	60,000	60,000
Issuance of H shares	20,000	–
At 31 December	80,000	60,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

In connection with the Company's IPO on the Main Board of The Stock Exchange of Hong Kong Limited on 30 December 2020, 20,000,000 H shares with a par value of RMB1.00 each were issued at a share price of HKD6.25, for total gross proceeds of HKD125,000,000 (approximately equivalent to RMB105,239,125). Total gross proceeds from the IPO less the underwriting commission fee and other listing expenses were recognised in equity. As a result, share capital increased by RMB20,000,000 (representing par value) and capital reserve increased by RMB32,057,534 (representing share premium).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

24 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves

(i) Capital reserve

The capital reserve comprises of share premium of the Company.

(ii) PRC statutory reserve

According to the PRC Company Law, the Company and its PRC subsidiaries are required to transfer 10% of their profit after taxation (after offsetting the losses in the preceding years), as determined under the PRC Accounting Regulations, to the statutory surplus reserve until the reserve balance reaches 50% of their registered capital.

The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory reserve fund can be used to cover previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholder and benefits for other stakeholders, by pricing rental and management fee commensurately with the level of risk and by securing access to finance at a reasonable cost. The Group's overall strategy remains unchanged throughout the year.

The capital structure of the Group consists of bank loans less cash and cash equivalents, and equity of the Group, comprising issued share capital, retained profits and other reserves.

The directors of the Company review the capital structure periodically. Based on the operating budgets, the directors consider the cost of capital and the risks associated with each class of capital and balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts.

The Group is not subject to externally imposed capital requirements throughout the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity and interest rate arises in the normal course of the Group's business. The Group's business exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to cash and cash equivalents and other receivables and prepayments. The Group's exposure to credit risk arising from cash is limited because the counterparties are banks with good credit rating, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The management reviews the recoverable amount of each debtor at the end of each reporting period to ensure that adequate impairment losses are recorded for irrecoverable amounts. Normally, the Group requires its customers to prepay the property leasing fees and the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2019 and 2020, the Group does not have any debtors that are past due but not impaired based on individual or collective assessment.

The Group measures loss allowances for trade receivables, other receivables and prepayments at an amount equal to lifetime ECLs. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable. As at 31 December 2020, expected credit loss rate for financial assets measured at amortised costs was immaterial because (1) the Group did not have any material trade receivables because property leasing income was mostly received in advance for at least a year; and (2) based on past experience, management believed that no impairment allowance was necessary in respect of amounts due from related parties as there had been no significant change in credit quality and the balances were still considered fully recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk

The Group's management reviews the liquidity position of the Group on an ongoing basis, including review of the expected cash inflows and outflows and maturity of loans and borrowings in order to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions and/or from other Group companies to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computing using contractual rates or, if floating, based on rates current at the end of each reporting period) and the earliest date the Group can be required to pay.

	As at 31 December 2020					Total RMB'000	Carrying amount at 31 December RMB'000
	Contractual undiscounted cash flows						
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than		More than 5 years RMB'000		
			2 years but less than 5 years RMB'000	5 years RMB'000			
Bank loans (excluding accrued interests)	40,462	40,000	-	-	80,462	80,462	
Accrued interests of bank loans	4,257	922	-	-	5,179	1,323	
Other payables and accruals (excluding accrued interests of bank loans)	24,969	-	-	-	24,969	24,969	
	69,688	40,922	-	-	110,610	106,754	

	As at 31 December 2019					Total RMB'000	Carrying amount at 31 December RMB'000
	Contractual undiscounted cash flows						
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than		More than 5 years RMB'000		
			2 years but less than 5 years RMB'000	5 years RMB'000			
Bank loans (excluding accrued interests)	57,020	-	-	-	57,020	57,020	
Accrued interests of bank loans	3,027	-	-	-	3,027	2,836	
Other payables and accruals (excluding accrued interests of bank loans)	14,286	-	-	-	14,286	14,286	
	74,333	-	-	-	74,333	74,142	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from cash and cash equivalents.

The Group is not exposed to significant interest rate risk for cash and cash equivalents because the interest rates of cash at bank are not expected to change significantly.

(d) Fair value measurement

As at 31 December 2020, the carrying amounts of other receivables and prepayments, other payables and accruals and bank loans were not materially different from their fair values.

26 COMMITMENTS

Capital commitments outstanding at 31 December 2020 not provided for in the financial statements were as follows:

	2020 RMB'000	2019 RMB'000
Authorised but not contracted for	132,687	133,814
Contracted for	92,912	181,030
	225,599	314,844

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

27 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Company's directors.

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9 and certain of the highest paid employees as disclosed in Note 10, is as follows:

	2020 RMB'000	2019 RMB'000
Directors' fee	–	–
Salaries, allowances and benefits in kind	304	354
Discretionary bonuses	–	–
Retirement scheme contributions	20	36
	324	390

The above remuneration to key management personnel is included in "staff costs" (see Note 7(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

28 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2020 RMB'000	2019 RMB'000
Non-current assets		
Investment properties	851,000	852,000
Property, plant and equipment	7,483	8,597
Lease prepayments	581	604
Intangible assets	72	178
Other non-current assets	3,674	3,956
Amount due from a subsidiary	141,658	87,559
Interests in subsidiaries	10,100	10,100
	1,014,568	962,994
Current assets		
Other receivables and prepayments	474	23,834
Cash and cash equivalents	83,216	21,447
	83,690	45,281
Current liabilities		
Short-term loans	28,462	57,020
Other payables and accruals	13,420	11,858
Receipts-in-advance, current	53,114	46,254
Amounts due to related parties	-	49
Current taxation	10,158	6,308
	105,154	121,489
Net current liabilities	(21,464)	(76,208)
Total assets less current liabilities	993,104	886,786

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

28 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (Continued)

	2020 RMB'000	2019 RMB'000
Non-current liabilities		
Long-term loan	40,000	–
Receipts-in-advance, non-current	78,349	83,482
Deferred tax liabilities	168,623	167,623
	<u>286,972</u>	<u>251,105</u>
NET ASSETS	706,132	635,681
CAPITAL AND RESERVES		
Share capital	80,000	60,000
Reserves	626,132	575,681
TOTAL EQUITY	706,132	635,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

29 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2020, the directors consider the immediate parent and ultimate controlling party of the Group to be Wenling State-owned Assets Supervision and Administration Commission. This entity does not produce financial statements available for public use.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue this report, the HKICPA has issued a number of amendments, and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2	January 1, 2021
Amendments to HKFRS 3, Reference to the Conceptual Framework	January 1, 2022
Amendments to HKAS 16, Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	January 1, 2022
Amendments to HKAS 1, Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to HKFRS 4, Extension of the temporary exemption from applying HKFRS 9	January 1, 2023
Amendments to HKFRS 10 and HKAS 28, Sale or contribution of assets between an investor and its associate or joint venture	No mandatory effective date yet determined

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.